BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION OF COMPETITIVE CARRIERS FOR COMMISSION ACTION TO SUPPORT LOCAL COMPETITION IN BELLSOUTH TELECOMMUNICATIONS, INC.'S SERVICE TERRITORY. — DOCKET NO. 981834-TP

PETITION OF ACI CORP. d/b/a ACCELERATED CONNECTIONS, INC. FOR GENERIC INVESTIGATION TO ENSURE THAT BELLSOUTH TELECOMMUNICATIONS, INC., SPRINT-FLORIDA, INCORPORATED, AND GTE FLORIDA INCORPORATED COMPLY WITH OBLIGATION TO PROVIDE ALTERNATIVE LOCAL EXCHANGE CARRIERS WITH FLEXIBLE, TIMELY, AND COST-EFFICIENT PHYSICAL COLLOCATION. — DOCKET NO. 990321-TP

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VOLUME 5

Pages 645 through 796

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN BRAULIO L. BAEZ COMMISSIONER J. TERRY DEASON COMMISSIONER LILA A. JABER COMMISSIONER RUDOLPH "RUDY" BRADLEY COMMISSIONER CHARLES M. DAVIDSON
DATE:	Thursday, January 29, 2004
TIME:	Commenced at 9:35 a.m. Concluded at 11:46 a.m.

PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	TRICIA DeMARTE, RPR Official FPSC Reporter (850) 413-6736
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
45	(Confidential)BKE-1 and BKE-2	651	790
46	BKE-3 through BKE-7	651	790
47	(Confidential)Surrebuttal BKE-1 and BKE-10	697	790
48	BKE-8, BKE-9, and BKE-11	697	790
49	Verizon Tariff (5th Revised)	699	790
50	Verizon Proposed Collocation Rates Based On Staff's Revised Allocators	779	790
38			794

P R O C E E D I N G S

(Transcript follows in sequence from Volume 4.)

CHAIRMAN BAEZ: Call the hearing back to order. Where were we? Mr. McCuaig, I think we've got your -- you've got to read the notice again or no? No, right?

MR. TEITZMAN: No, I don't need to read the notice again.

CHAIRMAN BAEZ: Great. We were in recess. It's all right. Did you have any preliminaries, Mr. Teitzman?

MR. TEITZMAN: There are no preliminary --

CHAIRMAN BAEZ: Okay. Then let's jump right into it. Mr. McCuaig, you had your witnesses up today.

MR. McCUAIG: Yes, Chairman.

CHAIRMAN BAEZ: All right. They've been sworn; right?

MR. McCUAIG: They were sworn yesterday.

CHAIRMAN BAEZ: Great. Go ahead. I'm sorry.

MR. McCUAIG: Testifying as a panel for Verizon are Barbara Ellis and Charles Bailey.

CHARLES BAILEY
BARBARA K. ELLIS

were called as a panel of witnesses on behalf of Verizon Florida Inc. and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. McCUAIG:

Q Ms. Ellis, would you please state your name and

business address for the record.

A (By Ms. Ellis) My name is Barbara Ellis and business address is 600 Hidden Ridge, Irving, Texas.

Q By whom are you employed and in what capacity?

A I'm employed by Verizon Communications as a senior staff consultant.

Q Have you caused to be filed prefiled testimony in this phase of this case direct testimony consisting of 44 pages?

A Yes.

Q Do you have any changes to that testimony?

A I have one change. On Page 10, Line 16, the virtual arrangements show "4"; that should be "zero." With zero percentage. And that change will also affect the percentages on Lines 14 and 15. Line 14, instead of "32 percent" is now "33 percent," and Line 15, instead of "65 percent," it is "67 percent." And on Line 19, the total arrangements is "147" instead of "151." And that's the only -- other changes were incorporated in my surrebuttal testimony.

Q Would your answers otherwise be the same if I were to ask you the questions contained in your prefiled direct testimony today?

A Yes.

MR. McCUAIG: Mr. Chairman, I would ask that Ms. Ellis's direct testimony be entered into the record as

though read.

CHAIRMAN BAEZ: Without objection, show the testimony of Barbara K. Ellis entered into the record as though read.

BY MR. McCUAIG:

Q Ms. Ellis, did you have seven exhibits to your direct testimony labeled BKE-1 through BKE-7?

A Yes.

Q Am I correct that BKE-1 and BKE-2 are confidential exhibits?

A Yes, they are.

Q And BKE-3 through BKE-7 are not?

A That's correct.

MR. McCUAIG: I would ask that one compilation consisting of Exhibits BKE-1 and BKE-2 be entered into the record and a second complication of Exhibits BKE-3 through BKE-7 be marked for identification, I'm sorry.

CHAIRMAN BAEZ: We'll show Exhibits BKE-1 and 2 marked as Composite Exhibit 45. And BKE-3 through BKE-7 marked as Composite Exhibit 46.

(Exhibits 45 and 46 marked for identification.)

DIRECT TESTIMONY OF BARBARA K. ELLIS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Barbara K. Ellis. My business address is 600 Hidden Ridge, Irving, Texas 75038.

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

A. I am employed by Verizon Communications as a Senior Staff Consultant. In this proceeding I am representing Verizon Florida Inc. ("Verizon FL" or the "Company").

Q. PLEASE DESCRIBE YOUR EDUCATION AND WORK EXPERIENCE.

A. I have a Bachelor's Degree in Business Administration from Cameron University in Lawton, Oklahoma and a Master of Science Degree in Economics from the University of North Texas in Denton, Texas. I have been employed at Verizon (formerly, GTE) in my current position since 1997. In this capacity, I am responsible for supporting Verizon's cost studies used for pricing retail and wholesale services. Prior to my employment at Verizon I was employed at Texas New Mexico Power Company (TNP), and was involved in retail and wholesale rate setting, demand forecasting, and resource planning. Prior to my employment in the electric industry, I was an adjunct professor in the Economics Department at the University of North Texas.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY STATE OR FEDERAL REGULATORY COMMISSIONS?

A. Yes. I have testified on behalf of Verizon on cost issues before the state regulatory commissions of Illinois, Indiana, New Mexico, North Carolina, Washington, and Wisconsin. I also testified before state regulatory bodies in New Mexico and Texas, and before the Federal Energy Regulatory Commission during my employment in the electric industry. As a witness in the electric industry, I gave testimony concerning retail rate design and revenue requirements, purchased power price forecasting and cost model policy, and input development.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony discusses Verizon FL's Expanded Interconnection Services Cost Study and rate development ("EIS cost study" or "collocation cost study") and its Dedicated Transit Service Cost Study and rate development ("DTS Study"), which together address all of the forms of collocation included in Verizon FL's Facilities for Intrastate Access Tariff. My testimony also addresses Pricing Issues 9 and 10 designated for resolution in this docket.

Q. HOW IS THIS TESTIMONY ORGANIZED?

A. My testimony consists of a general explanation of the types of collocation offered in Verizon FL's Intrastate Access Tariff and in use in Florida, the methodology used in developing Verizon FL's cost study, the cost elements generated by that study, and the corresponding rate

elements. It also discusses typical Florida collocation arrangements.

Attached to my testimony are the following exhibits:

- Confidential Verizon FL Exhibit BKE-1, which contains a cost study (with supporting workpapers) for all of Verizon FL's proposed collocation rate elements except for the DTS elements;
- Confidential Verizon FL Exhibit BKE-2, which contains a Dedicated Transport Service cost study (with supporting workpapers) for Verizon FL's proposed DTS elements;
- Verizon FL Exhibit BKE-3, which lists Verizon FL's proposed rate elements and associated rates;
- Verizon FL Exhibit BKE-4, which presents an explanation of the cost elements, rate elements, and associated terms and conditons;
- Verizon FL Exhibit BKE-5, which provides an example of a typical Florida caged collocation arrangement;
- Verizon FL Exhibit BKE-6, which provides an example of a typical Florida cageless collocation arrangement; and
- Verizon FL Exhibit BKE-7, which provides an example of a typical Florida virtual collocation arrangement.

Q. BRIEFLY DESCRIBE HOW CONFIDENTIAL VERIZON FL EXHIBIT BKE-1 IS ORGANIZED.

A. Confidential Verizon FL Exhibit BKE-1 is the collocation cost study for the state of Florida. The study includes:

- a narrative that describes the development of costs (pages 1-37);
- a rate summary that lists the 148 rate elements that the Commission should set in this proceeding (pages 38-43);
- a summary of the cost elements (pages 44-48);
- collocation drawings (pages 49-69);
- a glossary of elements (pages 70-85);
- a list of acronyms used in the study (pages 86-89); and
- the supporting workpapers for the cost study (pages 90-235).

Q. WHAT IS INCLUDED IN THE WORKPAPERS?

A. The workpapers contain the development of the non-recurring rate elements (pages 90-149), the monthly recurring rate elements (pages 150-228), and the common inputs such as annual cost factors, Verizon FL labor rates, and Single Source Provider ("SSP") labor rates (pages 229-235). All workpapers identify (1) the source(s) of data, (2) how the data are used in the collocation cost study to develop cost elements, (3) how those cost data are used to develop rate elements, and (4) to which form(s) of collocation each element applies. Workpapers ending with a "CS" suffix are cost support workpapers, whereas workpapers ending with a "PS" suffix are price support workpapers.

Q. PLEASE IDENTIFY WHAT IS INCLUDED IN CONFIDENTIAL VERIZON FL EXHIBIT BKE-2.

A. Confidential Verizon FL Exhibit BKE-2 is the Dedicated Transit Service

("DTS") study for the state of Florida. The study includes:

- a narrative that describes the development of costs (pages 4-6);
- a rate summary that lists the DTS rate elements that the Commission should set in this proceeding (pages 7-9);
- a summary of ordering costs and their supporting workpapers (pages 13-37);
- a summary of provisioning costs and their supporting workpapers (pages 38-52);
- a summary of field work costs and their supporting workpapers (pages 53-62); and
- the loaded labor rates used in the study (pages 63-67).

Q. PLEASE IDENTIFY WHAT IS INCLUDED IN VERIZON FL EXHIBITS BKE-3 AND BKE-4.

A. Verizon FL Exhibit BKE-3 provides a rate summary that lists and describes the application of the 148 rate elements that the Commission should set in this proceeding. This exhibit is identical to the rate summary included as a part of the cost study in Confidential Verizon FL Exhibit BKE-1 on pages 38-43. It is provided in a separate exhibit so that it can be separated from the remainder of the cost study and offered as a non-confidential exhibit.

Verizon FL Exhibit BKE-4 provides a definition for each collocation element and lists each element's associated terms and conditions. The

exhibit includes the following information about each element:

- a brief description of the costs included in the element;
- an explanation of how the proposed rate was derived; and
- a cross-reference to the terms and conditions applicable to the rate element in Verizon FL's Facilities for Intrastate Access Tariff.

Q. HOW DO THESE EXHIBITS CORRESPOND TO THE PRICING ISSUES THAT THE COMMISSION HAS DESIGNATED FOR RESOLUTION?

A. Verizon FL Exhibits BKE-1, BKE-2, and BKE-3 address Issues 9A ("For which collocation elements should rates be set for each ILEC?") and 9B ("For those collocation elements for which rates should be set, what is the proper rate and the appropriate application of those rates?"). Verizon FL Exhibit BKE- 4 addresses Issue 10 ("What are the appropriate definitions, and associated terms and conditions for the collocation elements to be determined by the Commission?").

II. TYPES OF COLLOCATION

Q. WHAT FORMS OF COLLOCATION ARE INCLUDED IN VERIZON FL's COLLOCATION COST STUDY?

A. Verizon FL offers a wide range of collocation options, allowing each ALEC to choose the option for each central office in which it collocates that best suits the needs of its business, given the availability of space in each central office. The offerings available in Verizon FL's tariff are:

- caged collocation (rate elements 1-50[1] and 96-121[2]);
- cageless collocation (rate elements 1-50);
- virtual collocation (rate elements 1-50);
- adjacent on-site collocation (rate elements 51-95);
- microwave collocation (rate elements 98, 99, 118, 122, and 123); and
- Dedicated Transit Service ("DTS") (rate elements 124-148).

I describe each of these offerings briefly in my testimony. The terms and conditions applicable to each form of collocation are explained in more detail in John Ries's Direct Testimony in this docket and the Verizon FL Facilities for Intrastate Access Tariff attached thereto.

Q. BRIEFLY EXPLAIN THE DIFFERENT FORMS OF CAGED COLLOCATION AVAILABLE TO ALECS.

A. Verizon Florida offers three caged collocation arrangement options: single, shared, and subleased. A single caged arrangement provides the ALEC with dedicated, caged floor space in various square footage increments and offers the ALEC direct access to the cage to install, maintain, or repair its equipment. A shared collocation arrangement is a dedicated, caged collocation space shared by two or more ALECs, each of which has direct access to the cage. One of the collocators is designated the Host collocator ("HC") and every other collocator sharing the same area is referred to as a Guest collocator ("GC"). The HC is responsible for ordering and remitting payment for all shared cage services requested from Verizon FL, but each ALEC has a separate

Local Service Request ("LSR") account with Verizon FL for ordering UNEs. The final form of caged collocation, sublease collocation, occurs when an existing collocator sublets surplus space in its contracted cage to another ALEC.

Q. PLEASE DESCRIBE THE CAGELESS FORM OF COLLOCATION AVAILABLE TO ALECS.

A. A cageless arrangement is very similar to a single caged arrangement without the cage, providing the ALEC with space in single bay or cabinet increments. Cageless arrangements do not provide the same level of security as caged arrangements, but ALECs can opt to have their equipment contained in locking cabinets. Typically, cageless arrangements are located in an area that is separate from Verizon FL's equipment. An ALEC with a cageless arrangement has direct access to the cageless collocation area to install, maintain, or repair its equipment.

Q. PLEASE DESCRIBE VIRTUAL COLLOCATION AND HOW IT DIFFERS FROM CAGED OR CAGELESS ARRANGEMENTS.

A. With virtual collocation, the ALEC acquires the equipment it wishes to use and then leases that equipment to Verizon FL for a nominal amount. The equipment remains dedicated to the ALEC's use, but Verizon FL is responsible for its installation and maintenance. The ALEC therefore neither needs nor is allowed access to the equipment; thus, virtual arrangements do not require separation from the equipment Verizon FL itself uses to provide telecommunications services. This allows Verizon

FL to maximize efficiency by placing virtually collocated equipment within Verizon FL equipment line-ups, as appropriate.

Q. WHAT IS ADJACENT ON-SITE COLLOCATION AND WHEN IT IS AVAILABLE TO AN ALEC?

A. Adjacent on-site collocation is available only when physical collocation space in a Verizon FL central office is exhausted. It has not been necessary to use this form of collocation in any Verizon FL central office. Nonetheless, Verizon FL has developed terms and conditions for adjacent on-site collocation.

With adjacent on-site collocation, the ALEC would be required to construct a separate building on Verizon FL's property in which the ALEC would install, repair, and maintain its equipment. ALEC entrance facilities would terminate in the separate building, rather than in Verizon FL's central office. The ALEC would have direct access to its equipment, but would neither need nor be allowed access to the Verizon FL central office because all of the collocator's equipment would be located and interconnected to Verizon FL's central office within the adjacent building. Likewise, Verizon FL would not have access to the adjacent building housing the ALEC equipment, except in emergencies.

Q. BRIEFLY EXPLAIN THE MICROWAVE COLLOCATION AVAILABLE TO ALECS.

A. Microwave collocation provides for the interconnection of ALEC-

provided facilities, equipment, and support structures located on the roof of a Verizon FL central office. An ALEC is required to have an existing physical (caged or cageless) or virtual collocation arrangement in the central office in order to request microwave collocation. Microwave collocation may not be available at all central offices due to space limitations or technical constraints.

Q. HOW MANY OF EACH TYPE OF COLLOCATION ARRANGEMENT ARE ALECS USING?

A. The following table presents the type and quantity of collocation arrangements ordered out of Verizon FL's state tariff and in use in Verizon FL's central offices as of November 2002.

Collocation Type	Quantity	% of Total
Physical/Caged	49	33% ~~32%~~
Cageless	98	67% ~~65%~~
Virtual	0 ~~4~~	3%
Adjacent	0	0%
Microwave	0	0%
Total	147 ~~151~~	

As the table above shows, no ALECs currently take advantage of Verizon FL's adjacent or microwave collocation offerings, but caged and cageless collocation arrangements are fairly common and virtual arrangements exist.

Q. BRIEFLY EXPLAIN VERIZON FL'S DEDICATED TRANSIT SERVICE.

A. Dedicated transit service ("DTS") allows an ALEC to interconnect its facilities and equipment with another ALEC's facilities and equipment. Such connections may use a dedicated facility at the DS0, DS1, or DS3 transmission level, or occur via dark fiber. DTS connections may be made only within a single Verizon FL central office and the ALEC must provide the connecting facility assignments.

III. COST STUDY METHODOLOGY

Q. HOW WAS VERIZON FL'S COLLOCATION COST STUDY DEVELOPED?

A. Verizon FL developed its costs using cost methods that are consistent with the Federal Communications Commission's ("FCC") Total Element Long-Run Incremental Cost ("TELRIC") construct. Verizon FL's costs are based on the costs of labor and materials needed to offer collocation to the ALECs. Specifically, Verizon FL's analyses utilize general contractor invoices for collocation projects, materials costs available to Verizon FL, and estimated work times and expenses from the various work groups involved in provisioning collocation arrangements.

Q. DOES THE COLLOCATION COST STUDY CORRECTLY MEASURE THE COST ELEMENTS REQUIRED TO PROVIDE COLLOCATION?

A. Yes. All Verizon FL work activities and equipment requirements associated with the types of collocation addressed by the EIS cost study are identified and organized into cost elements. The EIS cost study

breaks costs down into appropriate unit measurements for each element, such as linear feet of cable or square feet of floor space, and presents cost results on a "per unit" basis. This approach allows Verizon FL the flexibility to develop rate elements responsive to customer needs. Rate elements are priced on either a recurring or nonrecurring basis, as appropriate, to meet the needs of the ALECs and to provide a reasonable opportunity for cost recovery by Verizon FL.

Q. PLEASE EXPLAIN THE METHODOLOGY VERIZON FL USED TO DEVELOP ITS MONTHLY RECURRING RATE ELEMENTS.

A. To develop its monthly recurring rate elements, Verizon FL first identified the investments and expenses associated with providing each particular facility or service. Those investments were annualized through the application of the appropriate annual cost factor ("ACF"). The ACFs, which are listed on page 231 of Confidential Verizon FL Exhibit BKE-1, provide for a return on and recovery of capital (i.e., return and depreciation) and for taxes. The rate of return and the depreciation rates are endorsed and explained by Verizon FL witnesses Vander Weide and Sovereign, respectively. Those annualized expense and investment recovery figures were then divided by 12 to produce the TELRIC component of the monthly recurring rates. Verizon FL then used the fixed allocator of 14.09%, proposed in its Florida UNE Docket 990649-TP filing and on appeal, to assign reasonable shares of wholesale related common costs to the monthly recurring figures.

Q. WHAT COSTS FORM THE INPUTS IN VERIZON FL'S EIS COST STUDY?

A. The EIS cost study takes into account the most significant costs Verizon FL incurs to provide an ALEC with collocation: labor, materials, heating, ventilation, and air conditioning ("HVAC"), maintenance, and power. Of these, labor and materials are the largest component of Verizon FL's costs.

a. Labor Costs

Q. HOW DID VERIZON FL DETERMINE APPROPRIATE LABOR COSTS?

A. Determining appropriate labor costs requires looking at both Verizon FL employee labor costs and outside contractor rates, because Verizon FL relies on both in-house and outside labor to provision collocation. Verizon's 2000 loaded labor rates for Florida were used to determine the costs associated with collocation-related activities performed by Verizon FL employees. To determine appropriate contractor labor rates, Verizon FL uses a competitive bidding process known as "Single Source Provider" or "SSP."

Q. WHAT DO VERIZON'S LOADED LABOR RATES INCLUDE AND HOW ARE THEY DETERMINED?

A. The loaded labor rates include the direct costs associated with employee work activities, such as benefits, overtime, support and supervision, and overhead (e.g., motor vehicles and tools). The loaded

labor rates are market-based and reflect Verizon's economies of scale. Additional detail related to these Verizon-specific labor rates is presented on pages 233 and 234 of Verizon FL's cost study, attached hereto as Confidential Verizon FL Exhibit BKE-1.

Q. PLEASE EXPLAIN THE SINGLE SOURCE PROVIDER CONTRACTOR BIDDING SYSTEM.

A. SSP labor costs are derived from current Florida rates for laborers with the specific job skills necessary to perform the work required. The SSP is a competitive bidding system, repeated biannually, whereby Verizon FL solicits bids from various contractors in different geographical zones that meet Verizon FL's quality and insurance requirements. These bids are then used to develop unit rates for the labor costs used in Verizon FL's collocation cost study. The SSP rates used in the cost study are presented on page 232 of Confidential Verizon FL Exhibit BKE-1.

Q. HOW DO THE SSP LABOR RATES COMPARE TO THE RATES AVAILABLE TO VERIZON FL FOR COMPARABLE WORK IN THE PROVISION OF SERVICE TO ITS RETAIL CUSTOMERS?

A. The SSP labor rates are the same rates available to Verizon FL in its provision of retail services. The collocation cost study labor rates therefore include the economies of scale associated with Verizon FL's purchasing power.

b. Materials Costs

Q. HOW DID VERIZON FL DETERMINE APPROPRIATE MATERIALS COSTS?

A. Materials costs were obtained from Verizon FL's materials records. They contain prices based on invoiced costs for items Verizon FL currently has in inventory and on current price quotes from third party vendors for those items not in Verizon FL's inventory. Materials costs also include appropriate shipping and handling, sales tax, minor materials, and other supply provisioning costs.

Q. HOW DOES VERIZON FL TRACK THESE MATERIALS COSTS?

A. GTE Advanced Materials System ("GTEAMS") is the materials management system used by Verizon to perform inventory planning, accounting, purchasing, and materials management functions for its operating companies. The database provides two types of materials cost information: (1) the actual prices paid for materials that are in Verizon FL's inventory; and (2) current and effective price quotes for materials that are not or may not be in Verizon FL's inventory.

Q. HOW DOES THE MATERIALS COST DATA USED IN THE EIS STUDY COMPARE TO THE PRICES AVAILABLE TO VERIZON FL WHEN ORDERING MATERIALS FOR ITSELF?

A. The prices used in the EIS cost study are the same as the prices that Verizon FL pays for equivalent materials. Thus, the materials costs included in the EIS cost study reflect Verizon's economies of scale.

Additionally, this development of materials inputs and installation costs is consistent with the process the Company uses to estimate costs for internal Verizon FL projects and retail product offerings.

Q. WHY DOES VERIZON FL USE CURRENT MATERIALS AND LABOR COSTS IN ITS COST STUDY?

A. The use of current materials and labor costs and activity times is appropriate in estimating future collocation costs in Florida because the provisioning of collocation services is labor and materials (and not technology) intensive. Thus, general technological advances are not likely to lead to "future efficiency gains" in the provisioning of collocation services.

c. Engineer, Furnish & Install ("EF&I") Factors

Q. WHAT PURPOSE DO EF&I FACTORS SERVE IN THE COST STUDY?

A. EF&I Factors translate base year, materials-only investment into installed investment by accounting for items such as vendor engineering, Verizon FL engineering, transportation, warehousing, hoisting, vendor installation, Verizon FL installation (including acceptance testing and/or other plant labor), and interest during construction.

Q. HOW ARE EF&I FACTORS USED IN THE COST STUDY?

A. EF&I Factors, which are provided on page 235 of Confidential Verizon

FL Exhibit BKE-1, are used to develop the full installation costs associated with digital circuit and power equipment. For example, the EF&I Factor for digital circuit equipment is used to develop the full installed cost of innerduct, facilitiy terminations, and building integrated timing system ("BITS") equipment. The EF&I Factor for power installation is used in the development of monthly recurring DC Power rates.

Q. HOW WERE THE EF&I FACTORS DEVELOPED?

A. The factors were developed using data contained in the Company's Detailed Continuing Property Record ("DCPR") and Central Office Equipment Property ("COEP") databases. They were calculated by dividing the total installed investment for hardwired and plug-in equipment placed in calendar years 1999 and 2000 by the total materials-only investment for the same equipment in the same years. Company-wide data covering a two-year period was used in order to minimize anomalies that might be present in a specific market or in a specific year with respect to a particular piece of equipment.

Q. ARE VERIZON FL'S EF&I FACTORS FORWARD-LOOKING?

A. Yes. Although the equipment costs used in the EF&I calculations are from the years 1999 and 2000, the factors are forward-looking because those data are used as the basis for estimating the *relationship* of installed investment to materials-only investment. Because there is no reason why such ratios should change in the foreseeable future, they

are appropriately used in forward-looking studies.

IV. CAGED, CAGELESS AND VIRTUAL COST ELEMENTS

Q. PLEASE DESCRIBE THE CONTENT OF THIS SECTION OF TESTIMONY.

A. This section of testimony discusses the major cost elements associated with providing caged, cageless, and virtual collocation. Additional information about each element can be found in the description of that element in Verizon FL Exhibit BKE-4.

a. Central Office Costs

Q. PLEASE DESCRIBE HOW THE CENTRAL OFFICE IS MODELED IN VERIZON FL'S COST STUDY.

A. The EIS cost study assumes that collocation will be requested in central offices that exist today in Florida. The same central office buildings that once supported mechanical and electronic switching equipment have been updated to support the digital technology being deployed by Verizon FL today. These buildings were not originally designed or built to accommodate ALEC collocation. As a result, significant modifications are often required to meet ALECs' collocation requests. The EIS cost study identifies the costs of these modifications.

Q. HOW DOES VERIZON FL PROPOSE TO RECOVER GENERAL CENTRAL OFFICE COSTS?

A. Verizon FL proposes two rate elements to capture appropriate shares of

the costs incurred in building and modifying the central offices: "average floor space cost" to account for the initial construction and "building modification" to account for building modifications necessary to meet ALEC collocation requests.

Q. HOW WAS THE AVERAGE FLOOR SPACE COST ELEMENT DERIVED?

A. The average floor space cost is based on building and land investment and maintenance costs and utility costs. The actual sizes (in square feet) of Verizon FL's existing central offices, and the costs incurred in building and maintaining those central offices, are used as a starting point.

Q. ARE BUILDING AND LAND INVESTMENT VALUED ACCORDING TO THEIR HISTORICAL COSTS?

A. No. The central office building investment data are not included at historical investment costs, but rather are updated to current dollars by adjusting for inflation through the use of the R.S. Means Index.[3] Land investment is included at its original investment value — despite Florida's increasing real estate values — because Verizon FL has not yet identified an appropriate index to develop current land values.

Q. HOW ARE THESE COSTS USED TO DEVELOP THE AVERAGE FLOOR SPACE COST RATE ELEMENT?

A. Investments for land and buildings are annualized and combined with

average annual maintenance and utility costs to develop an annual total floor space cost. That total cost is divided by the total square footage of Verizon FL central offices to develop the average floor space cost per square foot rate element. The derivation of the average floor space cost is presented on page 162 of the collocation cost study, attached as Confidential Verizon FL Exhibit BKE-1.

Q. HOW IS THE AVERAGE FLOOR SPACE RATE ELEMENT USED IN VERIZON FL'S CHARGES?

A. The cost of floor space is included in the monthly recurring charges for collocation arrangements. With respect to caged arrangements, the average floor space rate element (rate element 36) is applied per square foot of cage space. For a cageless arrangement, the collocator has the option of placing its equipment on a relay rack (rate element 37) or in a cabinet (rate element 38). The dimensions of the relay rack or cabinet, plus 18 inches of aisle access in front of and behind the rack or cabinet, is the footprint used to assess floor space costs. The square foot cost developed for caged collocation is converted to a per linear foot cost that is applied to the footprint of the rack or cabinet. Floor space costs for virtual collocation arrangements are calculated on a quarter rack basis (which is determined by dividing the floor space cost per linear foot applied to the width of the rack by four), and are included in the virtual equipment maintenance rate element (rate element 50). Collocators using microwave rooftop space are charged for floor space (rate element 118) on a per square foot basis.

Q. WHAT COSTS ARE INCLUDED IN THE BUILDING MODIFICATION RATE ELEMENT?

A. The monthly recurring building modification rate element includes site modification costs associated with construction work, minor HVAC work, dust partition installation, and security.

Q. HOW WERE THOSE COSTS CALCULATED?

A. Verizon FL determined the costs associated with building modification by examining actual central office modifications undertaken to provision caged and cageless collocation. This review allowed Verizon FL to determine the actual work activities required for a typical building modification. Verizon FL's labor and materials costs were then applied to the identified work activities to determine the building modification costs. Additional detail associated with the development of the building modification rate element is included in Verizon FL Exhibit BKE-4, in the discussion of rate element 34.

Q. HOW DOES VERIZON FL PROPOSE TO RECOVER THESE BUILDING MODIFICATION COSTS?

A. Logically, building modification costs should be recovered as non-recurring charges assessed at the time that the (one-time) modification costs are incurred. However, in response to ALEC concerns about being forced to incur steep upfront charges, Verizon FL has proposed to recover building modification costs in monthly recurring charges over the expected life of the building. This recovery method obviously exposes

Verizon FL to additional risks with regard to cost recovery because collocators have no term obligations in their interconnection agreements.

b. HVAC

Q. HOW ARE HVAC COSTS INCLUDED IN THE STUDY?

A. HVAC costs are included in the study in two cost elements — costs to provide overall heating and cooling to the central office and costs specific to heating and cooling particular equipment.

Q. HOW DOES THE COST STUDY ACCOUNT FOR HVAC COSTS ASSOCIATED WITH THE BUILDING SHELL?

A. The HVAC costs required to generally heat and cool the entire building and its contents — which are driven by weather conditions, internal lighting systems, etc. — are recovered in the applicable floor space rate element. This makes sense because general heating and cooling of the building shell is a common necessity that should be paid for by Verizon FL and all of the ALECs collocated in the central office in pro rata shares.

Q. ARE THOSE COSTS RECOVERED ACCORDING TO THEIR HISTORICAL INVESTMENTS?

A. No, they are recovered based on what heating and cooling the same area would cost using today's technology. To accomplish this forward-looking adjustment, Verizon FL first subtracts 16% of its historical

building investment costs from the building investment cost element. Then, Verizon FL adds back into the building investment cost element the cost of providing HVAC to an equivalent area using today's technology.

Q. HOW WERE CURRENT HVAC COSTS DETERMINED?

A. Current HVAC shell costs are based on R.S. Means estimates. Those estimates price one ton of HVAC at $2,525.16. Verizon's Subject Matter Experts ("SMEs") have determined that one ton of HVAC will heat and cool 432 square feet of building space. Therefore, for a hypothetical central office size of 20,000 square feet, 46.3 tons of HVAC would be required to provide the necessary heating and cooling for the building shell. For such an office, $116,914 ($2,525.16 times 46.3) would be added back into the central office investment to represent the cost of providing the HVAC required to heat and cool the building shell using today's technology. Additional details are provided in the cost study workpapers, included in Confidential Verizon FL Exhibit BKE-1, on pages 165-167.

Q. HOW DOES THE STUDY ACCOUNT FOR HVAC COSTS REQUIRED TO COOL SPECIFIC PIECES OF TELECOMMUNICATIONS EQUIPMENT?

A. The EIS cost study develops two types of cost elements to account for HVAC costs required to provide a suitable environment for the ALECs' telecommunications equipment. First, minor duct work costs are

included in the building modification rate element (rate element 34) as "minor HVAC." Second, the HVAC costs required to cool specific pieces of telecommunications equipment are captured by the environmental conditioning rate element (rate element 35).

Q. PLEASE DESCRIBE WHAT COSTS ARE CAPTURED BY "MINOR HVAC."

A. Minor HVAC costs include the minor ductwork or diffuser rearrangements necessary to provide cool air directly to the location where the ALEC has placed its equipment.

Q. PLEASE DESCRIBE WHAT COSTS ARE CAPTURED BY THE ENVIRONMENTAL CONDITIONING RATE ELEMENT.

A. The environmental conditioning rate element captures the incremental HVAC costs incurred to cool ALEC equipment and maintain it at a constant temperature. The rate element is based on the number of amps ordered by the ALEC because power used is a good proxy for heat generated, and thus for cooling required.

c. Engineering

Q. WHAT ENGINEERING COSTS ARE ADDRESSED IN THE COST STUDY?

A. The collocation cost study estimates (i) the engineering costs required to engineer and plan a collocator's space and (ii) the engineering costs associated with the installation of facilities for collocation.

Q. HOW WERE ENGINEERING COSTS ASSOCIATED WITH PLANNING AN ALEC'S COLLOCATION ARRANGEMENT IDENTIFIED?

A. Verizon FL's cost study identifies the engineering planning costs associated with each form of collocation. For example, engineering costs associated with a new caged or cageless collocation arrangement are identifed in the engineering – major augment rate (rate element 1). Engineering costs associated with a new caged or cageless collocation area can vary depending on whether the area into which the newly ordered arrangement is to be installed already has existing collocation arrangements. Therefore, the engineering – major augment rate element includes a weighting of engineering costs associated with a new arrangement in (i) an area that does not have any existing caged or cageless collocation (29%) and (ii) an area that already has existing caged or cageless collocation (71%). Engineering costs associated with virtual, adjacent, and microwave collocation arrangements are identified separately (rate elements 33, 51, and 98, respectively) to reflect the different engineering tasks required for those various forms of collocation. Cost support for each of these engineering costs is presented on page 93 of Confidential Verizon FL Exhibit BKE-1.

Q. WHAT TYPE OF ENGINEERING ACTIVITIES ARE INCLUDED IN THESE ENGINEERING COSTS?

A. The engineering costs include the costs of having Verizon FL personnel — including the Central Office Equipment Engineer, the Land &

Buildings Engineer, and the Outside Plant Engineer — meet at the central office to identify what needs to be done to provide collocation as requested by an ALEC. The evaluation process includes planning the future use of space within the central office and determining the best location for the collocation arrangement. Once the planning phase is complete, the engineers must work on the actual provisioning of space to accommodate the collocation request. Status meetings are held throughout the engineering process as necessary and appropriate to discuss the progress of the collocation activity.

Q. HOW ARE ENGINEERING COSTS ASSOCIATED WITH THE INSTALLATION OF FACILITIES ADDRESSED IN THE STUDY?

A. The study includes engineering costs required to provision specific aspects of a collocation project, such as a facility pull – engineering (rate element 12), which entails provisioning facilities from the collocation arrangement to the main distribution frame ("MDF"), digital cross-connect bay ("DSX"), or fiber distribution panel, as appropriate. The engineering costs associated with these specific activities are either included in the costs associated with the activity (e.g., a cable splice, rate element 41 or 42) or are identified as separate rate elements (e.g., the facility pull, rate element 12). This treatment of engineering costs follows the basic costing principle that assigns costs to specific activities where possible.

Q. HOW WERE THE ENGINEERING ACTIVITIES REQUIRED FOR PLANNING AND INSTALLING FACILITIES DETERMINED?

A. The activity times required to perform specific aspects of planning collocation arrangements or installing facilities were provided by SMEs actually involved in the work effort. The SMEs identified the typical activities performed in planning the different types of collocation arrangments or installing various facilities and then determined the time required to perform those activities as well as the type of engineer required to do the work. Those activity times were then applied to the appropriate labor rates for the specific labor groups that would perform the activity to develop the cost estimates.

d. DC Power

Q. PLEASE EXPLAIN HOW THE COST STUDY ACCOUNTS FOR THE COSTS OF PROVIDING DC POWER TO COLLOCATORS' ARRANGEMENTS.

A. The cost study develops both the recurring and nonrecurring cost elements associated with providing DC power to collocators' arrangements.

Q. WHAT COSTS ARE CONSIDERED NONRECURRING?

A. The nonrecurring costs are incurred in the initial provisioning of power to the collocator and include the engineering time associated with planning the power arrangement (rate element 27), the costs associated with performing the power cable pull and termination (rate element 28), and

the cost of the ground wire (rate element 29).

Q. WHAT COSTS ARE RECOVERED IN THE MONTHLY RECURRING CHARGE?

A. The monthly recurring rate element (rate element 46) recovers the costs of distributing DC power to the ALECs from Verizon FL's power plant. For example, the element includes such materials as batteries, rectifiers, emergency generators, main fuse panels, and electrical connections to the main power source. It also captures the costs of extending power from the power plant to the collocation area battery distribution fuse bay ("BDFB"), including materials and labor costs associated with the required power cable, fuse panels, relay racks, and distribution bays. The monthly recurring rate also includes electric utility costs associated with the AC power that is converted to DC power in the power plant.

e. Fiber Cable Pulls

Q. WHAT IS THE FIBER CABLE PULL RATE ELEMENT?

A. The fiber cable pull is the placement of fiber cable from the designated manhole outside the cable vault, through the cable vault and conduit system, to the ALEC's collocation arrangement. From the cable vault to the collocation arrangement, the fiber is protected by innerduct, which Verizon FL also places as part of this element.

Q. WHAT ACTIVITIES ARE ASSOCIATED WITH FIBER CABLE PULL?

A. Before the installation can begin, an Outside Plant Engineer must visit

the location and determine the subduct assignment from the manhole to the cable vault. The actual installation activity includes the time required to set up at the manhole and the cable vault, prepare for the cable pull, and actually pull the cable through the manhole, cable vault, and conduit system and to the ALEC's collocation arrangement.

V. RATE ELEMENTS SPECIFIC TO VIRTUAL COLLOCATION

Q. PLEASE EXPLAIN THE VIRTUAL EQUIPMENT INSTALLATION RATE ELEMENT.

A. The virtual equipment installation rate element includes the activities associated with installing virtual collocation equipment. The rate is based on installation costs weighted by the frequency with which specific pieces of virtual collocation equipment have been installed in Verizon FL's central offices. (Verizon FL has identified no reason to suggest that the virtual collocation equipment distribution will change markedly going forward.) To provide ALECs with the option of requesting less than a full rack of equipment, the virtual equipment installation rate element is charged in quarter rack increments.

Q. PLEASE EXPLAIN THE VIRTUAL SOFTWARE UPGRADES RATE ELEMENT.

A. Verizon FL updates or upgrades the software installed on ALECs' virtually collocated equipment as requested by the ALECs. The virtual software upgrades rate element accounts for the time it takes a Central Office Equipment Installer to install the software upgrades. As with the

virtual equipment installation rate element, upgrade costs are weighted by current frequency, which serves as a proxy for expected future frequency. The rate element is charged per upgrade, per base unit being upgraded.

Q. PLEASE EXPLAIN THE VIRTUAL CARD INSTALLATION RATE ELEMENT.

A. The virtual card installation rate element captures the time the central office equipment engineer spends engineering the installation of the card as well as the time spent by a central office equipment installer to install the card. The actual costs of installing virtual cards vary somewhat with the type of equipment into which the cards are being installed. A single weighted virtual card installation rate has been developed to account for this variance. The virtual card installation rate is applied to any card installed in the collocator's virtual equipment.

Q. WHAT COST ELEMENTS ARE INCLUDED IN THE MONTHLY RECURRING VIRTUAL EQUIPMENT MAINTENANCE RATE ELEMENT?

A. The virtual equipment maintenance rate element includes the cost of maintaining both the ALEC's actual virtual equipment and the frame space utilized by that equipment.

Q. WHAT COSTS ARE INCLUDED IN EQUIPMENT MAINTENANCE COSTS IN A VIRTUAL ARRANGEMENT?

A. Equipment maintenance costs include both routine and trouble maintenance activities.

Q. HOW WERE THE VIRTUAL EQUIPMENT MAINTENANCE COSTS ASCERTAINED?

A. The virtual equipment maintenance costs are based on SME estimates provided by Verizon's National Operations Center ("NOC") managers and central office technicians responsible for maintaining ALEC virtual equipment.

Q. HOW ARE THESE MAINTENANCE COSTS RECOVERED?

A. Maintenance costs are recovered on a per quarter rack basis in the same manner as the virtual equipment installation rate element.

Q. WHAT COSTS ARE INCLUDED IN THE FRAME SPACE COST ELEMENT?

A. The frame space cost element includes the costs of both the ALEC's relay rack and the floor space that the relay rack occupies. The frame space cost element is based per quarter rack, in the same manner as the maintenance costs that are included in this rate element. A quarter rack of frame space is the typical increment required for a virtual collocation arrangement. The floor space rate for frame space is charged at the same rate developed for caged and cageless collocation arrangements. The costs associated with engineering and installing a standard eight-foot relay rack are developed on pages 146 and 147 of

Confidential Verizon FL Exhibit BKE-1.

VI. MICROWAVE COLLOCATION ELEMENTS

Q. WHICH RATE ELEMENTS ARE SPECIFIC TO MICROWAVE COLLOCATION?

A. Rate elements specific to microwave collocation include a nonrecurring engineering charge (rate element 98), a charge for the labor associated with a facility pull (rate element 99), and a monthly recurring charge associated with the rooftop space occupied by the microwave equipment (rate element 118).

Q. ARE THERE ANY OTHER ELEMENTS ASSOCIATED WITH PLACING A MICROWAVE ARRANGEMENT?

A. Yes. There are two additional rate elements specific to microwave collocation: building penetration (rate element 122) and special work (rate element 123). Building penetration is necessary to secure the microwave equipment and for cable entry; special work captures the microwave collocation costs that are not identified in the other microwave rate elements I have just described. Because Verizon does not have much experience with the processes, equipment, and personnel required to provision microwave collocation, both of these rate elements are currently provided on an individual case basis ("ICB").

Q. ARE THERE ANY ASPECTS OF MICROWAVE COLLOCATION THAT THE ALEC IS REQUIRED TO PROVISION ITSELF?

A. Yes. The ALEC is responsible for installing, maintaining, and repairing all of its microwave equipment. The ALEC must also obtain, at its sole cost, all permits, licenses, and variances required by local and state governments to install the equipment. A biannual inspection of the entire structure by a licensed engineer specializing in such inspections is also required and must be paid for by the ALEC. Verizon FL does not propose to perform any of these activities, and thus has not developed rate elements for them.

VII. ADJACENT ON-SITE COLLOCATION

Q. ARE THERE ANY COST ELEMENTS UNIQUELY APPLICABLE TO ADJACENT ON-SITE COLLOCATION?

A. Yes, but not many. The only cost elements unique to adjacent on-site collocation are engineering costs associated with provisioning adjacent on-site collocation, costs associated with providing cross connects to the adjacent on-site arrangements, and additional fiber related elements that are not required for physical or virtual collocation. A detailed description of each of the elements required for adjacent on-site collocation is provided in Verizon FL Exhibit BKE-4.

Q. ARE SOME ADJACENT ON-SITE COLLOCATION RATE ELEMENTS EQUIVALENT TO THOSE USED FOR CAGED OR CAGELESS COLLOCATION?

A. Yes. In fact, while there are numerous rate elements listed for adjacent on-site collocation, the cost bases for the majority of those elements do

not differ from the cost bases used for caged or cageless collocation. For example, the facility pull – engineering (i.e., cross connect) rate element associated with adjacent on-site collocation (rate element 52) is essentially the same as for a caged or cageless arrangement (rate element 12).[4] Additionally, certain space cost elements, such as conduit space, are developed in the same manner in both physical and adjacent collocation, with the only difference in the rate element being attributable to the size of the cable being placed.

Q. PLEASE EXPLAIN HOW THE CABLE PULL ACTIVITIES DIFFER FROM THE FACILITY PULL ACTIVITIES IN THE ADJACENT ON-SITE COLLOCATION CONTEXT.

A. Essentially, the cable pull is the main cross connect activity that will occur with any active adjacent collocator, while the facility pull is an activity that will occur only if the ALEC has both an adjacent arrangement and a physical (caged or cageless) arrangement, and wants to connect the two. The cable pull involves provisioning facilities between the adjacent arrangement and the cable vault, where the cable is spliced to Verizon FL's central office cable (stub). The central office cable (stub) runs back to the main distribution frame ("MDF"), where it is connected to a protector (to mitigate the dangers posed by stray voltage) mounted to the vertical side of the frame.

The facility pull elements capture the engineering and labor costs incurred in provisioning the ALEC facilities from MDF back to the

ALEC's on-premises collocation arrangement, and are essentially the same as the facility pull elements associated specifically with caged and cageless collocation arrangements, as I explained above.

Although the adjacent cable pull is more properly considered a complex cross-connect procedure than an entrance facility pull, essentially the same engineering and labor activities are required for the cable pull here as for the fiber pull. An Outside Plant Engineer must visit the cable vault and manhole to determine the cable duct to use. The pulling crew must then set up equipment at the manhole and cable vault in order to pull the cable. As with fiber pull, the cable pull rate is based on Florida-specific SSP rates for the size of cable being pulled.

Q. DOES VERIZON FL'S COST STUDY INCLUDE COST ELEMENTS ASSOCIATED WITH THE CONSTRUCTION OF ADJACENT ON-SITE COLLOCATION BUILDINGS.

A. No. The collocator is responsible for the construction of its adjacent on-site building and for the provision of its own DC power and HVAC. Therefore, Verizon FL did not develop cost or rate elements associated with those activities. Likewise, Verizon FL did not develop cost or rate elements associated with terminating entrance facilities in an adjacent on-site collocation arrangement because that activity is performed entirely by the ALEC.

Q. DOES THE EIS COST STUDY INCLUDE A COST ELEMENT FOR THE LAND REQUIRED TO PROVIDE ADJACENT ON-SITE COLLOCATION?

A. No. Because land costs can vary considerably between central office locations, even within in the same city, land costs for adjacent on-site collocation are assessed on an individual case basis.

VIII. DEDICATED TRANSIT SERVICE ("DTS")

Q. WHAT TYPE OF COSTS ARE INVOLVED IN PROVIDING DTS SERVICES TO REQUESTING ALECS?

A. Verizon FL will incur three types of costs associated with providing DTS services to requesting ALECs: ordering costs, provisioning costs, and connecting and disconnecting costs. Specifically, Verizon FL will incur costs associated with the access service requests ("ASR") ALECs use to order DTS services. Verizon FL's provisioning of DTS services includes the costs associated with the work centers involved in the provisioning process. And Verizon FL will incur costs associated with connecting and/or disconnecting the service in the central office (referred to as "central office wiring activities"). These costs are incurred in the context of provisioning DS0 (rate elements 124 – 131), DS1/DS3 (rate elements 132-140), and dark fiber (rate elements 141 – 148) based DTS requests.

Q. PLEASE EXPLAIN THE ORDERING PROCESS FOR DTS.

A. An ALEC will place its order for DTS via the ASR process, which will be

handled by Verizon's National Access Contact Center ("NACC"), located in Durham, North Carolina. The NACC service consultants who will handle ALEC requests for DTS are also responsible for processing the Inter-Exchange Carrier ("IXC") ASRs. The NACC has been in existence for approximately 20 years and has a great deal of experience in processing IXC requests for both switched and special access services. The NACC's processes and systems for IXCs are closely aligned with those required for processing DTS requests.

Q. HOW DOES THE ALEC SUBMIT ASRS FOR DTS SERVICE AND HOW ARE THEY HANDLED AT THE NACC?

A. The ALEC has the option of sending the ASR to the NACC electronically or manually. Electronic transmission of the ASR requires use of the EXACT system, whereas manual ordering can be done via fax or mail. Once the NACC receives the ASR, it is checked for completeness and accuracy. The NACC then releases the order into Verizon's access order processing system, which routes it to the appropriate provisioning and central office installation work groups.

Q. HOW WERE THE COSTS OF ASR ORDERING ACTIVITIES DEVELOPED FOR DTS?

A. Verizon conducted time and motion studies of the activities performed by the Service Consultants in the NACC to establish the work times associated with the various types of orders handled there. DTS orders are expected to be processed in the same manner as dedicated non-

switched transport orders. To derive the costs associated with DS0, DS1, and DS3 DTS ordering, the work times for non-switched dedicated transport "change" orders were multiplied by the loaded labor rate of the NACC Service Consultants. To derive the costs associated with dark fiber ordering, the work times for dark fiber "new" orders were multiplied by the loaded labor rate of the NACC Service Consultants. The development of these costs can be found on pages 12-37 of Confidential Verizon FL Exhibit BKE-2.

Q. WHAT ARE THE PROVISIONING ACTIVITIES ASSOCIATED WITH DTS REQUESTS?

A. The Business Response Provisioning Centers ("BRPC") or the Assignment Provisioning Center/Recent Change Mechanized Assignment Centers ("APC/RCMAC") will receive the DTS order from the NACC. They in turn will verify that the order is correct and is entered into the facility administration system (Telecom Business Solutions or "TBS"), and will route the order to the required work groups by means of a distribution code. The BRPC or APC/RCMAC access the facility records in their inventory database, change the records to identify the configuration requested by the ALEC, and create updated circuit and design layout reports.

Q. HOW WERE COSTS DEVELOPED FOR THE PROVISIONING ACTIVITIES REQUIRED FOR DTS SERVICES?

A. Information from the TBS database was used to determine the number

and type of orders or lines worked by each group in the BRPC. The BRPC productive hours were used to develop the time required per ASR, which was applied to the appropriate loaded labor rate. The costs of provisioning DS0, DS1, DS3, and dark fiber DTS services are presented on pages 40-52 of Confidential Verizon FL Exhibit BKE-2.

Q. WHAT CENTRAL OFFICE WIRING ACTIVITIES ARE ASSOCIATED WITH DTS REQUESTS?

A. Central office wiring includes two cost components — the central office labor to install the jumper and the jumper materials costs. The central office technician receives the required provisioning information from the BRPC and installs the jumpers to connect the two ALEC facilities. For DS0 services, the jumper will be a one pair metallic jumper. For the DS1 and DS3 services, two metallic jumpers — one for transit and one for receiving — will be placed to connect these types of facilities. For dark fiber requests, a fiber optic patchcord will be installed to connect the ALEC facilities.

Q. HOW WERE THE CENTRAL OFFICE WIRING COSTS FOR DTS DEVELOPED?

A. For central office work, "jumper running" studies were conducted to develop the time required to install or remove one jumper. The time per jumper was multiplied by the central office technician loaded labor rate to develop the cost per jumper.

The costs of jumper materials are based on the costs of jumper materials calculated by GTEAMS, and include materials loadings for freight, sales tax, and provisioning. The lengths of jumpers were based on average lengths of jumpers to span cross connect panels used for connecting facilities. The jumper lengths used in the study were 25 feet for DS0 and DS1 jumpers, and 28 feet for DS3 jumpers. Dark fiber is provided in ten meter increments. The development of these costs can be found on pages 55-62 of Confidential Verizon FL Exhibit BKE-2.

Q. PLEASE DESCRIBE THE DISCONNECT ACTIVITIES ASSOCIATED WITH DTS REQUESTS.

A. The disconnect activities are similar to the ordering, provisioning, and central office activities for an installation request. An order to disconnect the service will be prepared by the ALEC and transmitted to the NACC via an electronic or manual method. The NACC will check the order for completeness and accuracy and send it to the appropriate work groups to disconnect the service. The BRPC will remove the information from the facility database and send a disconnect order to the central office. The central office technician will then remove the jumpers from the appropriate equipment. A completion notice will then be sent to confirm disconnnect.

Q. HOW WERE THE DISCONNECT COSTS DEVELOPED FOR DTS?

A. The disconnect ordering costs are based on time and motion studies conducted in the NACC for order processing. The provisioning costs

are based on the time required in the BRPC for processing the order and issuing a disconnect order to the central office technician to physically remove the jumpers. As with the provisioning of DTS, the BRPC time is based on a breakdown of work groups, number of orders worked, and time worked in the BRPC. The central office work is based on the time to remove the jumpers in the central office according to the jumper running time and motion study. The development of these costs can be found on pages 55-62 of Confidential Verizon FL Exhibit BKE-2.

IX. TYPICAL COLLOCATION ARRANGEMENT

Q. WHAT IS A TYPICAL COLLOCATION ARRANGEMENT?

A. A typical collocation arrangement is a hypothetical arrangement designed to include the elements (and the quantities of those elements) that a typical Florida ALEC could be expected to order when collocating in a Verizon FL central office.

Q. WHY ARE TYPICAL COLLOCATION ARRANGEMENTS IMPORTANT TOOLS FOR THE COMMISSION'S EVALUATION OF VERIZON FL'S PROPOSED RATE ELEMENTS AND TERMS AND CONDITIONS?

A. Verizon FL offers 148 rate elements in its collocation tariff, but only a few are ordered in the process of establishing most arrangements. And not all of those elements that are commonly ordered are ordered in similar quantities. The depiction of typical collocation arrangements makes it easier for the Commission to identify the most significant rate elements. The presentation of a typical collocation arrangement can

also provide an example of Verizon FL's terms and conditions as they apply to ordering and billing.

Q. BRIEFLY EXPLAIN HOW VERIZON FL DEVELOPED THE TYPICAL COLLOCATION ARRANGEMENTS ATTACHED TO YOUR TESTIMONY.

A. Verizon FL developed a typical collocation arrangement for each form of collocation that has actually been ordered in Florida (i.e., caged, cageless, and virtual), using the entire universe of actual collocation arrangements in Florida as the starting point. Verizon FL's product management group used billing data to determine the rate elements in use for each form of collocation to develop an "average" arrangement of each type. Those "average" arrangements were then modified to the extent necessary to develop arrangements that make sense. For example, ALECs have the option of providing their own cables, but Verizon FL actually pulls and terminates the cable. Therefore, raw "average" data will reflect more cable being pulled and terminated than cable purchased from Verizon FL. The typical collocation arrangement deals with this inconsistency by assuming that the typical collocator provides its own cable to Verizon FL. The result is a typical arrangement for each form of collocation that Verizon FL could expect to be ordered by an ALEC.

Q. HOW ARE THE TYPICAL COLLOCATION ARRANGEMENTS PRESENTED?

A. The typical arrangements are presented in Verizon FL Exhibit BKE-5 (caged), Verizon FL Exhibit BKE-6 (cageless), and Verizon FL Exhibit BKE-7 (virtual). The exhibits are organized in a similar fashion, with each presenting the typical non-recurring and monthly recurring rate elements purchased, the typical quantity of elements purchased, the rate for each element, and the total price for each element and the collocation arrangement.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

END NOTES

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[1] All rate elements referred to in this testimony can be found in the Rate Summary attached as Verizon FL Exhibit BKE-3, as well as in the explanation of rate elements attached as Verizon FL Exhibit BKE-4.

[2] Rate Elements 96-121 are miscellaneous rate elements that may apply to the various forms of collocation. The Rate Elements that are expressly identified as "microwave related," though, apply only to microwave collocation arrangements.

[3] R.S. Means, Building Construction Cost Data 2001, 59th Annual Edition, page 125.

[4] Similar relationships exist between the following pairs or groups of rate elements for caged or cageless arrangements and adjacent on-site arrangements, respectively: elements 15 & 54, 16 & 56, 17 & 58, 18 & 59, 19 & 60, 21-24 & 62-65, 21 & 66, 25 & 68 and 71, 26 & 72, 39 & 74, 40 & 75, 47-49 & 78-80, 41-43 & 89-91, and 45 & 94.

BY MR. McCUAIG:

Q Mr. Bailey, would you please state your name and business address for the record.

A (By Mr. Bailey) Charles Bailey, 600 Hidden Ridge, Irving, Texas.

Q By whom are you employed and in what capacity?

A By Verizon Communications; I'm the product manager for collocation.

Q Are you the same Charles Bailey who testified in the Phase I hearing of this case?

A Yes.

Q Ms. Ellis and Mr. Bailey, did the two of you as a panel cause to be filed in this phase of this case surrebuttal testimony consisting of 58 pages?

A (By Mr. Bailey) Yes.

A (By Ms. Ellis) Yes.

Q Do you have any changes to that testimony?

A (By Mr. Bailey) No.

A (By Ms. Ellis) No.

Q If I were to ask you the questions contained in your prefiled surrebuttal testimony today, would your answers be the same?

A (By Mr. Bailey) Yes.

A (By Ms. Ellis) Yes.

MR. McCUAIG: Mr. Chairman, I would ask that

Ms. Ellis's and Mr. Bailey's surrebuttal testimony be entered into the record as though read.

CHAIRMAN BAEZ: Show the surrebuttal testimony of Charles Bailey and Barbara K. Ellis combined entered into the record as though read.

BY MR. McCUAIG:

Q Ms. Ellis, there were five exhibits to that surrebuttal testimony; is that correct?

A (By Ms. Ellis) Yes.

Q And of those five exhibits, Exhibit BKE-1 and BKE-10 are confidential; is that correct?

A Yes.

Q Exhibits BKE-8, BKE-9, and BKE-11 are not confidential; is that correct?

A That's correct.

MR. McCUAIG: Mr. Chairman, I would ask that the compilation consisting of Exhibits BKE-1 and BKE-10 to the panel surrebuttal testimony be marked for identification, and the compilation of Exhibits BKE-8, BKE-9, and BKE-11 be marked for identification.

CHAIRMAN BAEZ: We'll show Confidential Exhibits BKE-1 and BKE-10 marked as Composite Exhibit 47, confidential. And we'll show Exhibits BKE-8, 9, and 11 marked as Composite Exhibit 48.

(Exhibits 47 and 48 marked for identification.)

BY MR. McCUAIG:

Q Mr. Bailey, did Verizon provide copies of its currently effective collocation tariff to the parties and staff in this proceeding prior to this hearing?

A (By Mr. Bailey) Yes. The tariff was e-mailed on January 20th, 2004, and copies were handed out yesterday.

Q Has that tariff changed in any way since Verizon e-mailed it to Commission staff and the parties in this case on January 20th, 2004?

A No.

MR. McCUAIG: Mr. Chairman, I'd also ask that Verizon's currently effective Florida collocation tariff be marked for identification.

CHAIRMAN BAEZ: Mr. Teitzman.

MR. TEITZMAN: We have copies. I'll pass them out now.

CHAIRMAN BAEZ: We have copies. Okay. Are the tariffs something we take notice of, or do we need to mark them as exhibits?

MR. TEITZMAN: I think Mr. McCuaig has asked that they be marked as an exhibit; correct?

CHAIRMAN BAEZ: Uh-huh. I just want to make sure that we're doing it straight. That's all. We can go ahead and mark it as an exhibit.

MR. TEITZMAN: Yes.

CHAIRMAN BAEZ: Or I can show the Verizon tariff marked as Exhibit 49.

MR. McCUAIG: Thank you.

(Exhibit 49 marked for identification.)

CHAIRMAN BAEZ: And I'm showing that that is the facilities for intrastate access, 5th revised; correct?

MR. McCUAIG: That's correct.

SURREBUTTAL TESTIMONY OF CHARLES BAILEY

AND BARBARA K. ELLIS

I. INTRODUCTION

Q. MR. BAILEY, PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Charles Bailey. My business address is 600 Hidden Ridge, Irving, Texas 75038.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I filed Direct Testimony on behalf of Verizon Florida Inc. ("Verizon FL" or the "Company") on August 5, 2003. I described my education and work experience in that testimony.

Q. MS. ELLIS, PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Barbara K. Ellis. My business address is 600 Hidden Ridge, Irving, Texas 75038.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?

A. Yes. I filed Direct Testimony on behalf of Verizon Florida Inc. ("Verizon FL" or the "Company") on February 18, 2003. I described my education and work experience in that testimony.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. Our surrebuttal testimony responds to the Rebuttal Testimony of Rowland L. Curry and David J. Gabel on behalf of the Staff of the Florida Public Service Commission ("Staff"), and Steven E. Turner on behalf of AT&T Communications of the Southern States, LLC ("AT&T").

Q. HOW IS THIS TESTIMONY ORGANIZED?

A. First, we address the flawed premise that underlies Mr. Turner's entire testimony as it relates to Verizon FL — that it would be permissible and appropriate to ignore Verizon FL's business practices and unique collocation costs and instead force Verizon FL to adopt BellSouth's inputs and collocation provisioning, accounting, and cost recovery methods.

Second, we refute the primary theme of Dr. Gabel's testimony — that the lowest rate proposed by any ILEC for a particular cost or service should be imposed on all the ILECs, regardless of whether that rate element reflects similar practices or costs.

Third, we correct a misstatement by AT&T witness King at the August hearing: that monthly recurring charges used to recover infrastructure costs should cease at some point because the ALEC eventually would have "paid in full" for the infrastructure.

Fourth, we discuss why it would be improper to set rates in this proceeding on the basis of cost estimates from R.S. Means or similar

sources when Verizon FL has submitted company- and collocation-specific data.

Finally, we address the remaining ALEC and Staff criticisms of Verizon FL's cost study and respond to Dr. Gabel's erroneous assertion that even unchallenged ILEC-proposed costs could properly be reduced by the Commission.

Q. ARE YOU SUBMITTING AN UPDATED COST STUDY TO ACCOMPANY THIS TESTIMONY?

A. Yes. In the many months since Verizon FL initially filed its collocation cost study, Verizon FL has corrected or updated its cost study — and thus the rates it is proposing in this proceeding — in a number of respects. For example, Verizon FL produced an updated DC power cost study in response to Staff Interrogatory 229, corrected and updated its cost of capital proposal as explained in Dr. Vander Weide's Surrebuttal Testimony, and removed the cable vault space rate elements associated with caged, cageless, and virtual collocation in response to Staff Interrogatory 44(d). All of these changes are incorporated in Verizon FL Exhibit BKE-1 to this testimony.

II. THE COMMISSION SHOULD NOT FORCE BELLSOUTH'S COLLOCATION PRACTICES, COSTS, AND RATE STRUCTURE ON VERIZON FL.

A. Summary

Q. PLEASE DESCRIBE THE FULL EXTENT OF AT&T'S "UNIFIED COST MODEL" PROPOSAL, AS YOU UNDERSTAND IT.

A. Based on Mr. Turner's prefiled Rebuttal Testimony, Mr. King's live testimony at the August hearing, and AT&T's responses to Verizon FL's data requests, it is clear that AT&T's proposal is actually *much* more far reaching than just using the "BellSouth Cost Calculator" to derive Verizon FL's and Sprint's collocation rates. What AT&T is truly proposing is for the Commission to force Verizon's and Sprint's Florida operations to become carbon copies of BellSouth's.

Importantly, the "BellSouth Cost Calculator" is not a "model" the way AT&T would have the Commission believe, with algorithms and other generic assumptions designed to produce appropriate rates for any given set of inputs. Rather, it is a series of spreadsheets that use BellSouth-specific inputs to produce BellSouth-specific costs. Thus, AT&T's claim that the Commission should adopt one "unified model" and then make it ILEC-specific is misleading; AT&T is really asking the Commission to *ignore* what Verizon FL has filed and simply impose on it BellSouth's proposed costs (as modified by AT&T, of course). Indeed, AT&T admitted in its response to Verizon FL Interrogatory 25 that, except for cost of capital and the common cost factor, AT&T used *all* of

BellSouth's inputs (as reduced by Mr. Turner) as the basis for developing its schedule of recommended "Verizon FL-specific" rates. While it certainly may have been easier for AT&T to focus on only BellSouth's study and ignore Verizon FL's, the Commission must consider Verizon FL's study on the merits and set rates based on Verizon FL's costs.

Q. PLEASE SUMMARIZE THE PROBLEMS ASSOCIATED WITH STANDARDIZING ILEC "MODELS."

A. Imposing BellSouth's costs, provisioning methods, and rate structure on Verizon FL would (1) undermine the development of accurate, company- and state-specific UNE prices; (2) impose the unreasonable burden of developing and supporting a Florida-only cost model on ILECs like Verizon that provide service in multiple states; (3) *de*-standardize Florida from the rest of Verizon's footprint, which is contrary to what the ALECs have been arguing for in numerous other forums; (4) deny ILECs the flexibility they require to take advantage of advances in cost modeling and to respond to regulatory and technical change; and (5) likely not survive judicial review.[1] Verizon FL previously pointed out many of these problems in comments filed in the Standardization Workshop. *See* Verizon FL Exhibits BKE-8 and BKE-9.

Most importantly, even if the Commission could figure out a way to standardize ILEC provisioning methods, costs and rate structures, which as we discuss below is unlikely, the transition costs associated with this

approach would be significant. Indeed, the changes that would be required to Verizon FL's billing systems alone could cost over $1 million and, as discussed further below, would result in no real benefits. AT&T fails to address these costs in its proposals.

In short, no state has ever "standardized" ILEC cost models,[2] and Florida should not do so in this proceeding. As Commissioner Deason has recognized in considering the "standardization" of UNE cost models, carriers have "certain systems that are consistent . . . with the overall way they have their computer systems, information systems, and other [systems] set up . . . [and] to impose a particular model on them would be burdensome and costly."[3]

B. BellSouth Has Unique Provisioning Practices and Accounting and Billing Systems.

Q. HOW FAMILIAR ARE YOU WITH BELLSOUTH'S COLLOCATION PROVISIONING, ACCOUNTING, AND COST RECOVERY METHODS?

A. I have spent at least 50 hours studying BellSouth's collocation cost study, tariff, and testimony. I also have had two phone calls with BellSouth witness Bernard Shell of a combined duration of four or five hours, during which Mr. Shell was kind enough to answer the questions I still had following my extensive study of BellSouth's collocation practices.

Q. PLEASE SUMMARIZE THE REASONS WHY THE COMMISSION CANNOT SIMPLY IMPOSE THE BELLSOUTH "MODEL" ON VERIZON FL.

A. The Commission may not impose the BellSouth "model" on Verizon FL for at least six reasons.

First, BellSouth maintains its own accounting and cost input data, which underlie its cost study. Verizon FL does not have access to the BellSouth data, and does not maintain its own functionally equivalent data in the same formats. Rather, Verizon FL uses Verizon's standard databases to track its accounts and costs. Creating entirely new databases just for Florida so that Verizon could match its costs up to the BellSouth model obviously would be costly and inefficient.

Second, the manner in which BellSouth recovers its costs between UNEs and collocation is inconsistent with the manner in which Verizon FL recovers similar costs. Forcing Verizon FL to mirror BellSouth on the collocation side would therefore mean that Verizon FL would double-recover some costs, while not recovering others at all.

Third, even for those costs that both companies recover from collocation rate elements, Verizon FL bills for the facilities and services it provides differently than does BellSouth. And because BellSouth's charges are tracked and billed by specific BellSouth accounting and billing systems, aligning its rate structure with BellSouth's would require Verizon FL to

modify its provisioning, accounting, and billing systems to mirror BellSouth's as well. As we explain in further detail below, this would be extremely disruptive and expensive, and would produce no net benefit to the ALECs.

Fourth, the companies physically provision collocation differently, and the different activities lead to different costs, which are then often properly recovered in different rate elements.

Fifth, BellSouth offers ALECs certain facilities and services that Verizon FL does not. Requiring Verizon FL to implement these same services on BellSouth's terms would require significant and costly billing system changes, as well as changes to Verizon FL's operations.

Finally, Verizon FL provides ALECs with a number of facilities and services that BellSouth simply does not offer. Adopting AT&T's radical proposal thus would force Verizon FL to withdraw these services and change its tariffs and interconnection agreements — a result that many ALECs may oppose.

Q. PLEASE PROVIDE AN EXAMPLE OF A BELLSOUTH DATABASE THAT VERIZON FL DOES NOT HAVE.

A. The BellSouth Region Telephone Plant Indices ("TPIs"), which are used by BellSouth to estimate changes in materials prices and installed investments, were developed by BellSouth consultants specifically for

BellSouth. This BellSouth-specific cost information is used in a complex econometric model to provide the cost data required to develop appropriate collocation rates. Verizon FL's cost model, on the other hand, uses materials cost data from Verizon's own proprietary inventory tracking system, the GTE Advanced Materials System ("GTEAMS").

Thus, in this example, to conform to BellSouth's methodology, Verizon FL would have to significantly modify its existing data and databases, eliminating efficiencies and raising costs, which would have to be borne by the ALECs.

Q. ARE THERE EXAMPLES OF MORE GENERAL COLLOCATION COST DRIVERS THAT ARE DEVELOPED AND TRACKED DIFFERENTLY BY BELLSOUTH AND VERIZON?

A. Yes, there are several. First, Verizon does not maintain the type of detailed utilization data that BellSouth uses to adjust materials prices. Nor does Verizon weight materials prices based on the frequency of purchase from different vendors at different prices. Second, BellSouth relies on many different investment loadings (i.e., in-plant loadings) and factors that Verizon does not develop specifically for collocation activities. Instead, Verizon FL's EIS Cost Study generally develops discrete installation costs rather than using loadings and factors to develop installed costs.

Thus, as a practical matter, Verizon FL could not produce reports

equivalent to those BellSouth uses to determine its costs without a complete overhaul of certain Verizon accounting and cost input databases. And, of course, the modified systems would be useful only for Florida, because Verizon would have to maintain its current systems to service the rest of its footprint.

Q. PLEASE EXPLAIN WHY BELLSOUTH'S AND VERIZON FL'S DIFFERENT ASSIGNMENTS OF COSTS BETWEEN UNES AND COLLOCATION MAKE IT IMPOSSIBLE TO ADOPT AT&T'S "UNIFIED MODEL" PROPOSAL?

A. BellSouth has designed its collocation rate structure and elements to complement its own UNE and non-recurring cost models, so that BellSouth can avoid double-counting costs and ensure consistent methodology between models. Verizon FL likewise has developed its own collocation rate structure and elements so that they complement *Verizon FL's* UNE and NRC models, the rates for which already have been set in other proceedings. Thus, each ILEC recovers different costs in its collocation rate elements and UNE rate elements. For example, BellSouth includes in its collocation model all of the costs it incurs in taking and provisioning cross-connect orders, whereas Verizon FL includes such costs in its wholesale NRC model.

In light of these differences, forcing Verizon FL to abandon its own collocation model and rate elements and adopt the BellSouth model and elements would result in several internal inconsistencies among Verizon

FL's cost models and could cause Verizon FL to double-count certain costs, such as those associated with cross-connect orders, while not counting others at all. It would be extremely difficult for Verizon FL (and the Commission) to analyze and reconcile these differences, and likely would require the Commission to re-examine Verizon FL's existing UNE rates.

Q. ARE THERE OTHER PROBLEMS WITH IMPOSING BELLSOUTH'S RATE STRUCTURE ON VERIZON FL?

A. Yes. Verizon FL and BellSouth each have several collocation rate elements for which the other has no equivalent rate element, but rather recovers similar costs in various other elements. For example, while Verizon FL identifies overhead superstructure (i.e., cable racking) costs as a distinct rate element, BellSouth includes cable racking costs within its Common System Modifications rate elements H.1.42 (Cageless) and H.1.43 (Caged), which also contain additional costs such as HVAC and electrical costs.

In addition, a number of the collocation costs that Verizon FL recovers through non-recurring charges are recovered by BellSouth through monthly recurring charges. For example, Verizon FL recovers cage enclosure costs through NRCs while BellSouth recovers the same costs through MRCs.

In some cases, *both* of these scenarios are present. For example,

Verizon FL's overhead superstructure costs are recovered through an NRC, while BellSouth's H.1.42 and H.1.43 rate elements (which include equivalent cable racking costs) are recovered through MRCs.

Finally, while Verizon FL maintains only one rate for a number of NRCs, the BellSouth model appears to include "initial" and "subsequent" rates for many similar NRCs, and "first" and "additional" rates for others.

Thus, requiring Verizon FL to modify its current billing system to account for a significantly different rate structure would be difficult and costly.

Q. ARE THERE OTHER REASONS WHY VERIZON FL CANNOT SIMPLY TRANSITION TO THE BELLSOUTH RATE STRUCTURE?

A. Yes. Forcing Verizon FL to adopt the BellSouth rate structure would result in significant practical difficulties, especially in those cases where Verizon FL currently recovers through NRCs costs that BellSouth recovers through MRCs. The mapping and conversion necessary to transition to BellSouth's rate structure would require much more than simply eliminating MRCs for those elements for which Verizon FL already has charged the ALEC in question an NRC, because the BellSouth MRC may not recover precisely the same costs. For example, Verizon FL's cage enclosure and overhead superstructure rate elements do not line up neatly with BellSouth's. In those situations, simply eliminating the MRC without making any other adjustments obviously would result in either the over-charging of the ALEC or the

underrecovery of Verizon FL's costs.

Similarly, creating the software or manual procedures necessary to transform what once was an NRC into an MRC would be a logistical nightmare. And, of course, Verizon FL (and the ALECs) would expend considerable resources to track these differences through their significantly modified billing systems.

In short, designing an entirely new billing system is an extremely time-consuming and costly process. *Transitioning* from one billing system to another is exponentially more difficult and expensive. To force Verizon FL (and, ultimately, its customers) to bear this expense in order to *de-*standardize Florida from the footprint-wide Verizon billing systems simply makes no sense.

Q. WHAT ARE SOME EXAMPLES OF HOW VERIZON FL AND BELLSOUTH PROVISION COLLOCATION DIFFERENTLY?

A. One clear example is the way in which the two companies build cage enclosures. First, Verizon FL builds each cage to order, while BellSouth often builds a number of additional cages (to meet anticipated future demand) at the same time it builds the first one for the central office. This difference in provisioning accounts, in part, for the basic rate structure discrepancies between the two companies.

Second, Verizon FL offers ALECs more cage size options than does

BellSouth, which builds cages only in the 100 square foot size and 50 square foot larger increments.

Third, Verizon FL leaves some collocation decisions to individual ALECs that BellSouth makes for itself. For example, Verizon FL lets the ALECs set their own fuse sizes, up to a maximum of 2.5 times their ordered load, while BellSouth determines the fuse sizes for ALEC power feeds based on a mathematical formula. This difference explains why BellSouth's DC Power rate is applied on a per fused amp basis, while Verizon FL's rate is applied on a per load amp ordered basis.

Fourth, Verizon FL expects ALECs to keep track of their own collocation cable records and thus does not maintain such records with the degree of precision that BellSouth does. As a result, Verizon FL cannot provide the same cable record service to the ALECs that BellSouth offers. Indeed, it would be a tremendous undertaking for Verizon FL to gather and maintain the information necessary to provide the same type of collocation cable records as BellSouth, which already has in place the systems containing historical data.

Q. WHAT ARE SOME OTHER FACILITIES AND SERVICES OFFERED IN BELLSOUTH'S TARIFF THAT VERIZON FL DOES NOT OFFER ON A TARIFFED BASIS?

A. BellSouth's tariff includes charges for copper entrance facilities and AC standby power, among others. Because Verizon FL does not offer

these services,[4] it cannot comment on whether BellSouth's costs are appropriate for Verizon FL.

In any event, if the Commission ultimately orders Verizon FL to make these services available, they should be made available on a Bona Fide Request ("BFR") basis. Verizon FL should not be bound by BellSouth's rates, terms and conditions, because, among other things, Verizon FL may have to provision the services differently from BellSouth and may have to make certain changes to its operations and/or billing systems that BellSouth was not required to make to provide the services.

Finally, AT&T's claim that the Commission should adopt BellSouth's "model" because Verizon FL studies lack of certain rate elements, *see* Turner Rebuttal at 11, is wholly without merit. In fact, as AT&T admitted in response to Staff Interrogatories 76-78, AT&T has ordered only *nine* collocation elements from BellSouth in Florida, *none* of which is an element Verizon FL is allegedly "missing." Furthermore, not one of the nine collocation elements AT&T has purchased from BellSouth was ordered from BellSouth's Florida collocation tariff — all were either ordered from BellSouth's federal tariff or negotiated on an individual basis.

Q. PLEASE PROVIDE AN EXAMPLE OF FACILITIES AND SERVICES PROVIDED BY VERIZON FL THAT BELLSOUTH DOES NOT OFFER.

A. There are a number of facilities and services that Verizon FL provides to

ALECs that BellSouth simply does not. For example, Verizon FL provides cross-connect facilities and offers power cables (the ALECs also have the option to supply their own), and installs and terminates both kinds of cables. BellSouth, on the other hand, requires collocators to provide, install, and terminate their own power cables and cross connects. Verizon FL also offers microwave collocation elements, but BellSouth does not.

If Verizon FL were forced to adopt BellSouth's cost model and rate elements, then Verizon FL would have to eliminate these facilities from its collocation offering. It makes no sense to de-standardize Florida from the rest of the Verizon West footprint, and remove options currently available to ALECs, so that AT&T can achieve its dubious goal of "standardizing" BellSouth and Verizon FL.

Q. AT&T HAS ARGUED THAT THE COMMISSION SHOULD ORDER VERIZON FL TO REQUIRE ALECS TO CONTRACT WITH VERIZON FL-CERTIFIED VENDORS FOR THE ENGINEERING, FURNISHING, AND INSTALLATION OF CROSS-CONNECT AND POWER CABLES FOR COLLOCATION ARRANGEMENTS. DO YOU AGREE?

A. No. Verizon FL is ultimately responsible for its central offices, and it should be allowed to maintain direct responsibility for any work that could put at risk the safety of workers or reliability of the network outside the walls of an ALEC's cage.

Q. HOW COULD THIS CHANGE NEGATIVELY IMPACT THE NETWORK?

A. In essence, accountability would be diffused, leaving the network vulnerable. Consider the recent blackout across the Midwest and Northeast owing to neglect of the electric grid, which everybody owned so nobody owned. Specifically, ALECs might seek to negotiate with Verizon FL-certified vendors for reduced rates in exchange for less quality control. And there no longer would be one party clearly responsible for reacting to service outages or other damage caused by vendors.

Q. ARE THERE FCC REPORTING REQUIREMENTS ASSOCIATED WITH SERVICE OUTAGES?

A. Yes. When Verizon FL or one of its certified vendors causes a service outage, it is Verizon FL (and not the vendor or any ALEC) that explains what happened to the FCC and this Commission. This requirement could become unfair and onerous if the number of FCC reportable outages were to increase significantly due to vendor activity on behalf of ALECs.

Q. ARE THERE SPECIAL CONSIDERATIONS WITH RESPECT TO THE *ENGINEERING* OF CABLES THAT THIS COMMISSION SHOULD CONSIDER?

A. Yes. Allowing ALECs to engineer their own power and cross-connect cables would be inconsistent with the FCC's collocation rules because it

would allow the ALECs to determine the assignment of cable rack space and termination locations throughout Verizon FL's central offices, potentially affecting Verizon FL's and other ALECs' operations. The FCC has made clear that "each incumbent should maintain ultimate responsibility for assigning collocation space within its premises."[5] In this context, "space" should not be construed as merely floor space, but should include cable rack and relay rack space as well.[6] Engineering ALEC cables is thus properly the responsibility of Verizon FL.

Q. WOULD VERIZON FL HAVE CONFIGURED ITS OFFICES DIFFERENTLY IF ALECS COULD ENGINEER, FURNISH, AND INSTALL THEIR OWN CROSS-CONNECT AND POWER CABLES?

A. Yes. Verizon FL has configured its central offices with the understanding that it would have direct responsibility for any cabling that could have system-wide impacts. For example, Verizon FL uses individual BDFBs to distribute power to both ALECs' equipment and its own — a practice it would not have adopted if it did not have such direct responsibility. Instead, Verizon FL would have placed ALEC-dedicated BDFBs to segregate their power from Verizon FL's own and thus protect Verizon FL's end users. Likewise, because Verizon FL has direct control over power cable provisioning, Verizon FL has mixed ALEC and Verizon FL power feeds on its power distribution boards, rather than dedicating certain panels to ALEC use.

Q. IF ALECS ARE ALLOWED TO ENGINEER AND INSTALL THEIR

OWN CABLES, WHAT RULES SHOULD APPLY TO THIS PRACTICE?

A. If the Commission were to order Verizon FL to allow ALECs to use Verizon FL-certified vendors to engineer, furnish, and install the cables for their collocation arrangements, it must at the very least impose the following guidelines to protect Verizon FL's network:

- Only vendors certified (or "approved") by Verizon to perform work outside of ALEC cages may perform cable EF&I. This is in contrast to vendors that are "authorized" to perform work within ALEC *cages*, but are not "approved" to work on the *network*. Of course, vendors may apply for this additional certification, but they will be held to the same standards to which Verizon holds its own approved vendors.
- Certified vendors hired by ALECs to perform work outside of the ALEC cages must perform the work to the same standards as Verizon insists on for the same kind of work.[7] Specifically, ALECs should not be permitted to negotiate with certified vendors for lower rates in exchange for less quality when those vendors are working on the network.
- Certified vendors hired by ALECs must consult with Verizon FL engineers before performing any work that could impact carriers beyond the contracting ALEC, and the contracting ALEC must reimburse Verizon FL for this consulting and supervision time.
- Certified vendors hired by ALECs to perform work outside of the ALEC cages must install only NEBS-approved equipment and

cable.

- Verizon FL may require the ALEC and the certified vendor hired by the ALEC to be jointly and severally liable for any damage done by the contractor while working for the ALEC.

In addition, Verizon FL's collocation intervals would have to be reconsidered to reflect the fact that Verizon FL would have limited control over the ALEC vendors' work.

Q. RETURNING SPECIFICALLY TO MR. TURNER'S RATE RECOMMENDATIONS, ARE THERE ADDITIONAL REASONS WHY THE COMMISSION SHOULD REJECT MR. TURNER'S "UNIFIED MODEL" PROPOSAL?

A. Yes. Mr. Turner proposes that BellSouth's rates be reduced because of certain alleged problems with BellSouth's costs, and that these reduced rates should then be applied to Verizon FL. For example, Mr. Turner repeatedly claims that certain rates should be reduced because BellSouth failed to provide appropriate cost support. In attacking BellSouth's rates in this manner, Mr. Turner seeks to penalize not just BellSouth, but also Verizon FL and Sprint by imposing his recommended cost reductions on them as well as BellSouth. Even if there were merit to Mr. Turner's attacks on BellSouth's cost support, Verizon FL certainly should not be punished for BellSouth's alleged failure to support its own costs.

Furthermore, as we discuss below, BellSouth apparently has

understated certain collocation costs. Verizon FL's cost support for its own proposed rates should therefore be evaluated on its own merits.

Q. PLEASE ADDRESS MR. TURNER'S CLAIM THAT BELLSOUTH'S RATES SHOULD BE IMPOSED ON VERIZON FL BECAUSE VERIZON FL'S STUDIES ARE "INCOMPLETE." (TURNER REBUTTAL AT 9).

A. To justify his complete lack of diligence in reviewing Verizon FL's studies, Mr. Turner makes the vague claim that Verizon FL's cost development is somehow "incomplete." He is incorrect. Verizon FL filed an extensive cost study with hundreds of pages of back-up support in conjunction with Barbara Ellis's Direct Testimony, and Verizon FL has filed even more back-up data in response to Staff's discovery requests. Mr. Turner does not appear to have made any attempt to understand that study or its inputs, and instead has focused solely on BellSouth's model and inputs. Indeed, AT&T has conducted virtually no discovery on Verizon FL.

Thus, the Commission should not confuse Mr. Turner's failure to evaluate Verizon FL's studies with any alleged lack of completeness of Verizon FL's cost development. Verizon FL's collocation cost studies are complete and well supported, and should be adopted.

Q. PLEASE PROVIDE AN EXAMPLE OF MR. TURNER'S RELIANCE ON BELLSOUTH'S ALLEGED LACK OF SUPPORT FOR ITS COSTS AS

A JUSTIFICATION FOR REDUCING BELLSOUTH'S RATES.

A. As discussed in more detail below, Mr. Turner claims that BellSouth failed to support its DC power study and therefore recommends that the Commission completely reject BellSouth's proposed DC power investment per amp, and instead adopt the costs BellSouth submitted in prior Florida dockets. *See* Turner Rebuttal at 19-27. Astonishingly, Mr. Turner suggests that the Commission also impose those old BellSouth costs on Verizon FL and Sprint. *See id.* Our attorneys have informed us that adopting AT&T's approach would clearly violate due process.

Q. DO YOU AGREE WITH MR. TURNER'S CLAIM THAT BELLSOUTH HAS OVERSTATED ITS POWER COSTS? (TURNER REBUTTAL AT 19-27).

A. No. Mr. Turner claims that BellSouth's examination of augments rather than complete power jobs led to an *over*statement of power costs because of the loss of economies of scale. But, as we discuss below, any alleged economies of scale missing from BellSouth's study clearly do not outweigh the significant generator costs missing from BellSouth's power study.

Q. PLEASE GENERALLY DESCRIBE YOUR UNDERSTANDING OF BELLSOUTH'S POWER STUDY.

A. BellSouth looked at 711 power augment projects across the BellSouth states that were triggered by collocated ALEC power requests from late 1998 until early 2000. Following each request, BellSouth determined

whether it would be necessary to augment the plant to meet current power demands (based on ALEC ordered amps plus the current drain of BellSouth's equipment), as well as anticipated future power demands. If BellSouth determined that the plant's capacity was not sufficient, it augmented the plant to meet anticipated future power demands. In many cases, the power plant already had sufficient capacity to supply current and anticipated future power demands, so no augment was necessary.

Q. WHAT IS THE PURPOSE OF THE EMERGENCY GENERATOR?

A. The primary purpose of the emergency generator is to provide AC power to the batteries and rectifiers in the event of a commercial power outage. A back-up generator is necessary to avoid major interruptions to telecommunications services (provided by ILEC and ALECs alike) during such an outage. An emergency generator thus is a necessary component of every central office power plant.

Q. HOW COSTLY IS PROVIDING EMERGENCY POWER?

A. Extremely costly: the generators themselves are expensive, and their considerable mass makes them very expensive to install as well. In fact, the materials and installation costs of the emergency generator and associated fuel tank typically represent the largest investment in the central office power plant. Installation costs for the generator include such items as exhaust fans, new electrical feeds and control wiring to the Automatic Transfer Switch ("ATS"), as well as the ATS itself.

Q. WHY HAS THE STRUCTURE OF BELLSOUTH'S DC POWER COST STUDY LED IT TO OMIT APPROPRIATE EMERGENCY BACK-UP GENERATOR COSTS?

A. Although emergency generators are required for all central offices, power *augments* almost never require them to be upgraded or replaced. Accordingly, in 710 of the 711 jobs, there appear to be absolutely no materials or installation costs associated with the back-up generator. Many of the jobs required the placement of additional rectifiers and batteries, and a fair number required cabling between the power board and a BDFB, but only one appears to have required upgrading or replacing the generator.

Q. CAN YOU ATTEMPT TO QUANTIFY THE IMPACT OF OVERLOOKING THESE EMERGENCY GENERATOR COSTS ON BELLSOUTH'S INVESTMENT PER AMP FIGURE?

A. Yes. In the revised power study that Verizon FL submitted in conjunction with its Supplemental Response to Staff Interrogatory 229, costs associated with the back-up generator amount to $342 of Verizon FL's $604 investment per load amp, or 131% of the non-emergency generator costs (which total $262). Increasing BellSouth's proposed investment per load amp of $429 by 131% to account for the missing back-up generator materials and installation costs would bring that figure to $991, which is higher than Verizon FL's proposed $604.

Q. PLEASE RESPOND TO MR. TURNER'S CLAIM THAT BELLSOUTH INCLUDED TOO FEW AMPS IN ITS POWER CALCULATION. (TURNER REBUTTAL AT 19-27).

A. Mr. Turner's claim that BellSouth placed too few amps in its investment per amp formula because its denominator was comprised of amps *ordered* rather than amps *built* tells only half the story. While it is true that BellSouth sometimes built more amps than the ALEC ordered, it also is true that BellSouth sometimes built *no* amps in response to ALEC orders. In either case, it was the amps *ordered* that went into BellSouth's denominator. For example, if an ALEC ordered 50 amps and BellSouth decided to build 100 amps, 50 amps went into the cost study denominator; and if an ALEC ordered 50 amps and BellSouth built zero amps, 50 amps went into the cost study denominator.

Thus, contrary to Mr. Turner's claims, BellSouth's methodology understates, not overstates, power costs.

III. AT&T AND STAFF IMPROPERLY COMPARE ILEC RATE ELEMENTS.

Q. HOW DO YOU RESPOND TO MR. TURNER'S AND DR. GABEL'S POSITION THAT THE COMMISSION SHOULD IMPOSE THE LOWEST RATE PROPOSED BY *ANY* OF THE ILECS ON *ALL* OF THE ILECS? (TURNER REBUTTAL AT 15; GABEL REBUTTAL AT 36-37).

A. As an initial matter, TELRIC requires that the Commission adopt collocation rates that reflect each ILEC's unique costs, and that the

Commission must therefore evaluate each ILEC cost proposal on its own merits. Thus, AT&T/Staff's premise — that the Commission should simply pick the lowest rate proposed by any ILEC and assign that rate to all three ILECs — is legally flawed. Verizon FL will further address these legal issues in its post-hearing brief.

In any event, Mr. Turner's and Dr. Gabel's proposal should be rejected for a number of other reasons. First, Mr. Turner and Dr. Gabel ignore the fact that BellSouth's territories are more dense and have larger central offices and more collocation than Verizon West's, thus leading to different collocation practices and different costs. For example, BellSouth may realize economies of scale due to having larger central offices and more collocation arrangements that are simply not available to Verizon FL.

Second, Mr. Turner and Dr. Gabel ignore that it is entirely reasonable for labor and materials costs to vary among ILECs. Thus, their claim that any variation must mean that one or more parties is being inefficient is clearly wrong.

Finally, Mr. Turner and Dr. Gabel incorrectly compare individual ILEC cost elements. But as we make clear below, because the ILECs' provisioning methods, cost measurements, and recovery designs differ significantly, such element-by-element comparison is inappropriate.

Q. PLEASE DESCRIBE HOW DR. GABEL IGNORES DIFFERENT COLLOCATION PRACTICES IN HIS ELEMENT COMPARISON ANALYSES.

A. Dr. Gabel's element comparison is flawed because he improperly analyzes individual cost elements in isolation.

Consider a hypothetical situation in which there are only three central offices — one BellSouth office, one Sprint office, and one Verizon FL office — and only three locations in each central office available for collocation — next to the power plant, next to the main distribution frame, and next to the cable vault. Assume that BellSouth locates the collocation area in its CO next to the power plant, Sprint locates its collocation area next to the MDF, and Verizon FL next to the cable vault. BellSouth's decision as to where to locate its collocation area may lead to *lower* power costs (because less cabling, cable racking, and fewer BDFBs may be required), but to *higher* cross-connect and entrance facility costs due to the longer cables and additional racking necessary to provide those services. Likewise, Sprint would be expected to have relatively *lower* cross-connect costs and Verizon FL to have relatively *lower* entrance facility costs.

Viewed in their full context, it becomes clear that the cost discrepancies among individual rate elements are reasonable. In refusing to recognize that each ILEC has its own individual system for provisioning collocation — which may result in both higher *and* lower costs for individual

elements as compared to other ILECs — Dr. Gabel's analysis compares apples to oranges.

Q. HAS DR. GABEL IGNORED OTHER DIFFERENCES AMONG ILECS IN MAKING HIS "RELATIVE EFFICIENCY" COMPARISONS?

A. Yes. Dr. Gabel improperly ignores a number of fundamental differences among the ILECs and their collocation offerings in recommending that the Commission impose uniform collocation costs in this proceeding. For example:

- Dr. Gabel criticizes Verizon FL for failing to include the same work times and activities in its application processing fee that BellSouth and Sprint include in their respective application processing fees. *See* Gabel Rebuttal at 38. In making this criticism, Dr. Gabel completely ignores the fact that Verizon FL recovers the majority of its costs associated with the application process (e.g., engineering time) in other rate elements, and not in its application fees.

- Dr. Gabel's comparison of Sprint's and Verizon FL's cage enclosure costs is similarly misleading. *See id.* at 46-47. While Dr. Gabel is correct that Verizon FL's cage costs are somewhat higher than Sprint's, Dr. Gabel ignores Sprint's practice of building multiple cages at once in advance of demand (as well as the mathematical error in Sprint's cage enclosure cost

development described in Part VI of this testimony).

In light of the very real differences among the ILECs' businesses and their collocation offerings, the Commission should reject Dr. Gabel's element-by-element comparisons of proposed collocation costs in this proceeding and evaluate the costs developed by each ILEC on their own merits.

IV. THE ALECS MISUNDERSTAND THE NATURE OF RECURRING COSTS.

Q. DO YOU AGREE WITH THE SUGGESTION AT THE AUGUST HEARING THAT RECURRING CHARGES SHOULD CEASE AT THE POINT THAT THOSE CHARGES ADD UP TO THE INITIAL COST OF THE INFRASTRUCTURE? (8/11/03 TR. AT 200; 8/12/03 TR. AT 537).

A. No. Covad's counsel misunderstands the nature of recurring charges. First, a recurring charge spreads the costs of a particular asset over the life of the asset. Thus, the asset is not paid off until it is retired, at which time a new asset would be built. Second, recurring charges recover ongoing maintenance costs, taxes, and the like — costs that continue over the life of the asset.

Q. DO YOU AGREE WITH THE RELATED POINT THAT VERIZON FL WILL RECOVER ALL ITS COSTS EVEN IF ALECS DO NOT PAY FOR ALL THE CAPACITY THEY ORDER TODAY AS LONG AS THEY PAY THE PER AMP RATE SOMEDAY? (8/11/03 TR. AT 250-51).

A. No. That assertion by AT&T's counsel also fundamentally misstates how cost recovery works. An ALEC must pay the recurring charge over the entire time it has leased the asset. Otherwise, Verizon FL does not recover its costs. If I lease a car starting today, I have to start paying for it today. If I refuse to pay for a year and then start paying the monthly lease rate, the car company does not become whole at some point. It missed a whole year's payments that it was counting on to recoup the costs of paying for and maintaining the car.

V. THE COMMISSION SHOULD USE VERIZON FL'S ACTUAL DATA, NOT ESTIMATES FROM R.S. MEANS OR OTHER SOURCES, TO SET COLLOCATION COSTS.

Q. BOTH MR. TURNER AND MR. CURRY RECOMMEND USING THE R.S. MEANS ESTIMATOR TO ESTABLISH CERTAIN COST INPUTS. (TURNER REBUTTAL AT 45-49, 52-55; CURRY REBUTTAL AT 16, 21). DO YOU AGREE WITH THEIR SUGGESTIONS?

A. No. Although it may be appropriate to utilize R.S. Means or some other estimator for select data when no company-specific data are available, it is not appropriate to use R.S. Means simply because one does not like a particular company-specific input.

Q. PLEASE RESPOND TO MR. TURNER'S RECOMMENDATION TO USE R.S. MEANS TO DEVELOP FLOOR SPACE COSTS. (TURNER REBUTTAL AT 45-49).

A. The R.S. Means data Mr. Turner uses to calculate average square

footage costs are not accurate and omit significant costs. R.S. Means data provide only a basis for *estimating* construction costs, and there is no way to determine what costs are actually included in the R.S. Means telecommunications building data. Indeed, R.S. Means itself warns that its square-foot costs should be used only as a starting point for informational purposes in examining contractor bids and that its estimates should be disregarded once real data are obtained.

For example, it is impossible to determine whether the R.S. Means costs include such items as outside plant cabling and infrastructure, additional site specific costs, and building construction "soft costs" (e.g., architect, design, and engineering fees). And R.S. Means states that some site preparation costs, such as storm water management, landscaping, site surveys, environmental assessments, parking space, and site lighting *are not* included in its estimates.[8]

Finally, from Verizon's discussions with R.S. Means, we also understand that the R.S. Means data regarding telecommunications structures are extremely outdated, with the vast majority of the projects examined having been completed before 1985.

Q. HOW DID VERIZON FL DEVELOP ITS FLOOR SPACE COST?

A. Verizon FL's average floor space cost is based on the actual sizes (in square feet) of Verizon FL's existing central offices, and the actual costs incurred in building and maintaining those central offices. The central

office building investment data are not included at historical investment costs, but rather are updated to current dollars by adjusting for inflation. Land investment is included at its original investment value — despite Florida's increasing real estate values — because Verizon FL has not yet identified an appropriate index to develop current land values. Thus, in this respect, Verizon FL's cost study understates forward-looking land costs.

Q. DO YOU AGREE WITH DR. GABEL'S ANALYSIS OF THE STRENGTHS AND WEAKNESSES OF USING R.S. MEANS TO ESTABLISH COSTS? (GABEL REBUTTAL AT 27-28).

A. Yes. Although Dr. Gabel states that "R.S. Means is not a wholly unreasonable starting point" for determining cost inputs, he acknowledges that R.S. Means offers no more than "'ball park' figures" that must be adjusted based on "experience, local economic conditions, and local building codes." Gabel Rebuttal at 28. As a result, Dr. Gabel correctly concludes that using R.S. Means to develop building investment costs is inferior to "Verizon's building investment methodology." *Id.*

VI. THE COMMISSION SHOULD REJECT AT&T'S AND STAFF'S REMAINING CRITICISMS OF VERIZON FL'S STUDIES.

a. Labor Costs

Q. DID ANY PARTY CHALLENGE VERIZON FL'S LABOR RATES?

A. No. Except as noted below with respect to SME time estimates, no

witness directly challenged Verizon FL's single source provider ("SSP") rates, loaded labor rates, or assignment of labor groups to various activities.

Q. PLEASE RESPOND TO DR. GABEL'S CONCERNS REGARDING THE TIME ESTIMATES PROVIDED BY VERIZON FL'S SUBJECT MATTER EXPERTS. (GABEL REBUTTAL AT 30-38).

A. Dr. Gabel suggests that SME estimates are almost *per se* unreliable and invalid. Such a position is, to the best of our knowledge, contrary to that taken by every single state public utility commission and by the FCC, all of which have considered SME estimates to be probative evidence. In support of his position, Dr. Gabel relies on out-of-context quotations and questionable citations.

Q. DOES THE FLORIDA PSC DECISION THAT DR. GABEL CITES ON PAGE 31 OF HIS REBUTTAL TESTIMONY SUPPORT HIS ASSERTION THAT SME ESTIMATES ARE BY THEIR NATURE UNRELIABLE?

A. No. In the order cited by Dr. Gabel, the Commission raised concerns with BellSouth's cost studies, but did not find that all SME estimates are unreliable and should never be used. Indeed, even while discussing the problems it found with BellSouth's cost studies, the Commission expressly noted that "BellSouth's SMEs did what they were told to do; that is, they developed or reviewed work activities or times based on their knowledge, experience, and observations." In the end, the

Commission ordered BellSouth to "consider potential process improvements," but it did not reject the use of SME time estimates in calculating forward-looking costs.[9]

Q. HAS THE FCC EVER FOUND THAT SME ESTIMATES ARE BY THEIR NATURE "UNSUBSTANTIATED," AS DR. GABEL SUGGESTS? (GABEL REBUTTAL AT 31).

A. No. To the best of our knowledge, and contrary to Dr. Gabel's implication, the FCC has never stated SME time estimates should not be used to develop forward-looking costs. In the order cited by Dr. Gabel, the FCC refused to accept Pacific Bell's costs, not because they were derived from SME estimates, but rather because Pacific Bell "merely provide[d] a general discussion of the investments and the labor required" and failed to "provide specific information on the data, assumptions, and methodology used to develop" the costs it proposed. In addition, Pacific Bell relied on "a 1992 company study to support its annual maintenance factor," but "d[id] not provide copies of this study or the pertinent details contained in it."[10]

Q. DO THE SME ESTIMATES RELIED ON BY VERIZON FL IN THIS PROCEEDING SUFFER FROM THE SAME DEFECTS AS THOSE THAT LED THE FCC TO REJECT PACIFIC BELL'S PROPOSED COSTS IN THE ORDER CITED BY DR. GABEL?

A. No. Verizon FL — in Barbara Ellis's Direct Testimony and the exhibits thereto, and in response to countless data requests — has provided the

specific "data, assumptions, and methodology" that underlie its SME estimate inputs. *See, e.g.*, Verizon FL's Responses and Supplemental Responses to Staff Production of Document Requests 41 and 61.

Q. PLEASE RESPOND TO DR. GABEL'S CLAIM THAT THE SME ESTIMATES RELIED ON BY VERIZON FL (AS WELL AS SPRINT AND BELLSOUTH) HAVE NOT MET THE NECESSARY LEGAL STANDARD TO BE RELIABLE OR VALID. (GABEL REBUTTAL AT 32-37).

A. Dr. Gabel attempts to analyze the reliability and validity of the SME estimates relied on by Verizon FL and the other Florida ILECs under the criteria set forth in the court case *Daubert v. Merrell Dow Pharmaceuticals, Inc.* Those criteria involve an assessment of (1) whether the SME theory or technique has been tested; (2) the reliability of the procedure used by the SME and its potential rate of error; (3) whether the SME's theory or technique has been subject to peer review and/or published; and (4) whether the SME's methods and reasoning enjoy general acceptance in the relevant scientific community. It is our opinion that the SME estimates submitted by Verizon FL in support of its cost study are reliable and valid when analyzed using these criteria, and we strongly disagree with Dr. Gabel's suggestion otherwise. The types of SME estimates relied on in this proceeding have been relied on by state PUCs and the FCC in prior rate setting proceedings, and their reliability and validity have been proven repeatedly.

Q. PLEASE RESPOND TO DR. GABEL'S SUGGESTION THAT SME ESTIMATES EVENTUALLY SHOULD BE REPLACED WITH TIME AND MOTION STUDIES, WHERE PRACTICABLE. (GABEL REBUTTAL AT 36-37).

A. As Dr. Gabel himself notes, it would be impractical, if not impossible, to replace SME estimates with time and motion studies at this stage of this proceeding. Dr. Gabel also correctly recognizes that many collocation activities would not lend themselves to time and motion studies, due to their small sample sizes and/or variations in populations. We also note that time and motion studies are costly, and cannot easily be adapted when methods of provisioning collocation facilities or services change.

Q. HOW SHOULD THE COMMISSION EVALUATE THE THREE ILECS' SME ESTIMATES?

A. The Commission should use the same method the FCC and state commissions typically use to evaluate SME estimates: For each of the three ILEC's SME estimates, the Commission should weigh the evidence proffered to support the ILEC's proposed times against any countervailing evidence, and should adjust the ILEC's proposed times only if appropriate. Where the weighing of the evidence has been, for all practical purposes, reduced to a "battle of the experts," the Commission should consider each expert's background and testimony and decide whom it finds most credible. The Commission should reject Dr. Gabel's proposal to adopt the lowest time proposed by any ILEC for the reasons discussed in Part III, above.

b. Materials Costs

Q. DO THE REBUTTAL WITNESSES CHALLENGE VERIZON FL'S PROPOSED MATERIALS COSTS?

A. Yes, but they challenge only very limited aspects of Verizon FL's proposed materials costs. For example, Mr. Curry questions Verizon FL's use of GTEAMS as a data source, and suggests that Verizon FL's proposed grounding bar costs are overstated. *See* Curry Rebuttal at 11, 20. In addition, Dr. Gabel states that Verizon FL's proposed cage costs are too high. *See* Gabel Rebuttal at 47.

Q. PLEASE RESPOND TO MR. CURRY'S CRITICISMS OF VERIZON'S GTEAMS DATABASE. (CURRY REBUTTAL AT 11, 20).

A. While Mr. Curry states that he has concerns with some of the materials cost outputs from GTEAMS, his testimony makes clear that he does not have an accurate understanding of what GTEAMS is and how it is used. For example, Mr. Curry asserts that Verizon FL's "methodology uses largely embedded investments and data to compute costs." Curry Rebuttal at 11. This is incorrect. GTEAMS reflects the costs that are available to Verizon FL now, and that Verizon FL can expect to incur on a forward-looking basis. As explained in Barbara Ellis's Direct Testimony, GTEAMS is the materials management database Verizon FL uses to perform inventory planning, accounting, purchasing, and materials management functions for its operating companies. Ellis Direct at 15. The database provides two types of materials cost

information: (1) the actual prices paid for materials that are in Verizon FL's inventory; and (2) current and effective price quotes for materials that are not or may not be in Verizon FL's inventory. GTEAMS data thus reflect the *actual prices available* to Verizon FL, based on Verizon FL's vendor discounts and purchasing power. With respect to collocation facilities, which do not depend on rapidly-changing technology, Verizon FL has determined that it likely will incur these same costs on a going-forward basis.

Q. PLEASE RESPOND TO MR. CURRY'S SUGGESTION THAT VERIZON FL'S CAGE GROUNDING BAR COSTS ARE OVERSTATED. (CURRY REBUTTAL AT 20).

A. Although Mr. Curry's assertion that Verizon FL has overstated grounding bar costs is not accompanied by any factual information, just the conclusory statement that the costs are "extremely high," Verizon FL has investigated his claim and determined that one particular change is warranted. Specifically, Verizon FL has changed the time estimate associated with pulling the 350 MCM cable (a component of the grounding bar rate element) to better reflect the placement costs for that specific cable size. The reduction in placement time reduces the total cost of the cage grounding bar from $1423.65 to $926.77. This reduction should address Mr. Curry's concerns.

Q. PLEASE RESPOND TO DR. GABEL'S ASSERTION THAT VERIZON FL'S CAGE COSTS SEEM OVERSTATED. (GABEL REBUTTAL AT

47).

A. While Dr. Gabel is correct that Verizon FL's proposed cage costs are higher than Sprint's, there are a number of legitimate reasons for this cost difference.

First, the major difference between Verizon FL's and Sprint's cost estimates is the amount of fencing assumed, which is a direct function of where the cages are located and how they are built. Sprint assumes that it will be able to build more cages along a wall and next to each other (thus minimizing the fencing — and dollars in the *numerator* — required for each) than has been Verizon FL's experience.

Second, Sprint treats some of those same cages as if they required four fenced sides when figuring the *denominator* used in calculating per cage costs — an error that improperly reduces Sprint's proposed cage costs.

Third, Sprint's study assumes that multiple cages are built simultaneously, which has the effect of lowering average cage costs and increasing the risk of stranding cage investments.

Q. HOW DOES VERIZON FL'S COST STUDY ASSUME CAGES WILL BE LAID OUT IN THE COLLOCATION AREA?

A. Verizon FL's collocation study assumes that cage layout in the future will resemble cage layout to date. Like Sprint, Verizon FL attempts to utilize existing walls in the central office as well as side walls of other cages to

minimize the need for cage fencing. However, Verizon FL has found that this is not always possible. Verizon FL's proposed cage costs are based on actual collocation configurations and reflect the average square footage of fencing required for various cage sizes. Verizon FL used these figures to develop average fencing square footages for each cage size Verizon FL offers, and used those averages to calculate the fencing costs associated with each cage size. Verizon FL has no reason to believe that those configurations will change in a forward-looking network.

Q. PLEASE EXPLAIN IN MORE DETAIL THE "DENOMINATOR" ERROR IN SPRINT'S COST STUDY THAT YOU CLAIM IMPROPERLY REDUCES SPRINT'S PROPOSED CAGE COSTS.

A. Because Sprint sometimes divides actual invoice costs by the hypothetical linear footage of a cage with four fenced sides, instead of the linear footage of the cage fencing actually placed, Sprint's method improperly understates cage costs.

This is evident from Sprint's responses to AT&T PODs 6 and 8. In response to AT&T POD 6, Sprint provided a spreadsheet showing the derivation of its proposed fencing cost per linear foot. Sprint's response to AT&T POD 8 provides the invoices or invoice details associated with the work orders included in its response to AT&T POD 6. For example, work order 3912496 indicates that a new cage was to be placed directly adjacent to an existing arrangement, and the detail in the invoice

indicates that an existing central office wall would be used as part of the cage as well. The actual dimensions of the fencing placed were one 10 foot side and one 15 foot side, a total of 25 linear feet of fencing (including the 4-foot gate). However, as shown in the spreadsheet attached to Sprint's response to AT&T POD 6, Sprint used *50* linear feet of fencing, instead of the 25 linear feet actually placed, as the denominator in its cost per foot equation, effectively (and improperly) halving its cost per linear cost.[11]

Q. WHY DOESN'T VERIZON FL BUILD CAGES IN ADVANCE OF DEMAND?

A. In Verizon FL's experience, it is more practical and cost effective to build cages as they are actually ordered, thus avoiding the risk of stranded investment.

Q. ARE THERE OTHER DIFFERENCES IN HOW SPRINT AND VERIZON FL ACCOUNT FOR CAGE COSTS?

A. Yes. Sprint includes its cage gate costs in its total fencing costs, while Verizon FL accounts for the cost of the gate separately. Likewise, Sprint includes the cage grounding bar in its general per square foot cost, while Verizon FL accounts for it separately. Verizon FL's method of separately identifying gate costs and grounding costs allows Verizon FL to develop discrete, representative costs for the various cage size configurations it offers.

Q. IS THERE FURTHER SUPPORT FOR YOUR ASSERTION THAT VERIZON FL'S CAGE COSTS ARE REASONABLE?

A. Yes. Although Verizon FL allows the ALECs to contract directly with an approved vendor to construct their cages, no ALEC has ever availed itself of this option in Florida. Thus, the market has spoken on this issue.

c. Power

Q. PLEASE COMMENT ON MR. CURRY'S CRITICISMS OF VERIZON FL'S POWER CABLE COSTS. (CURRY REBUTTAL AT 20-21).

A. Mr. Curry points out that the cost estimate for the floor ground bar element uses R.S. Means data to estimate the time to pull a 750 MCM power cable, whereas all other cost estimates involving power cable power pulls use Verizon FL's internal activity time estimate of 15 minutes per foot. Mr. Curry is correct with respect to this inconsistency in Verizon FL's cost study — R.S. Means should not have been used for the floor ground bar cable pull estimate, and has appropriately been removed from the updated cost study filed as an attachment to this testimony.

In addition, Verizon FL's updated study assumes 12 minutes per foot, rather than the 15 minutes criticized by Mr. Curry, to pull a 750 MCM power cable. This 12-minute estimate is the figure that Verizon FL uses for developing cost estimates for internal jobs. This change makes the installed cost of such a power cable $1702 in the floor ground bar

element. Use of current, Florida-specific data across cable gauges leads to a weighted average power cable pull time of 7 minutes per foot, which Verizon FL has now incorporated into its cable pull NRC.

Q. DOES MR. CURRY CRITICIZE VERIZON FL'S POWER EF&I COSTS? (CURRY REBUTTAL AT 12-14).

A. Yes. Mr. Curry raises two concerns with respect to Verizon FL's power EF&I factor. First, he notes that the installation ratio provided in Verizon FL's collocation cost study increased for larger office sizes. Second, he expresses concern that the amperage capacity figures provided in the study might not correspond to the maximum power capacity that could be produced by the associated power plant investment.

Q. IN LIGHT OF VERIZON FL'S UPDATED DC POWER STUDY, IS MR. CURRY'S CRITICISM REGARDING THE EF&I FACTOR STILL RELEVANT?

A. No. Verizon FL's updated DC power study does not use an EF&I factor for calculating installation costs, so Mr. Curry's criticism is no longer relevant.

Q. IS MR. CURRY CORRECT THAT THE AMPERAGE CAPACITY REFLECTED IN VERIZON FL'S POWER STUDY SHOULD REPRESENT THE MAXIMUM AMOUNT OF POWER THAT CAN BE PRODUCED BY THE CORRESPONDING POWER PLANT INVESTMENT FIGURES? (CURRY REBUTTAL AT 11-12).

A. No. The amperage capacity figures used in calculating the cost per amp should reflect the *usable* power plant capacity. Power equipment may not run at 100% capacity; thus Verizon FL engineers have estimated that only 80% of the plant is available to meet load requirements. Indeed, running power equipment at 100% of its rated capacity would leave Verizon FL without the surge capacity necessary to handle short-term increases in power demands.

Q. DOES SPRINT MAKE A SIMILAR ADJUSTMENT FOR THE EXPECTED OPERATING CAPACITY OF THE POWER PLANT?

A. Yes, although Sprint makes the adjustment to its costs rather than the amperage associated with the power plant.

The following illustrates Sprint's adjustment and shows that it has the same effect as Verizon FL's: Assume that the gross amperage of a $483,200 power plant is 1000 amps, of which 80% is deemed usable. Verizon FL would develop its investment per amp of $604 by dividing the $483,200 cost by 800 amps. Sprint, on the other hand, would arrive at its investment per amp of $604 by dividing the $483,200 investment by 80%, and dividing that $604,000 "investment" by 1000 amps. The two different methods thus produce identical results and serve identical functions.

Q. PLEASE RESPOND TO MR. TURNER'S ANALYSIS OF THE TEXAS PUC'S ORDER REGARDING SBC'S POWER COSTS. (TURNER

REBUTTAL AT 23-24).

A. Mr. Turner has repeatedly pointed to that Texas PUC collocation order in other collocation proceedings to support his claim that ILECs' power costs, no matter how well supported, should be lower. As far as we are aware, though, *no* state commission has *ever* followed that Texas decision.

In addition, Mr. Turner misleadingly suggests that SBC itself proposed the low power costs adopted in Texas. Following telephone conversations with an SBC collocation witness, however, it is our understanding that SBC "proposed" those costs only after it had lost several crucial cost modeling questions. Thus, SBC does not believe that the figures presented in that proceeding properly recover its power costs.

Q. PLEASE RESPOND TO MR. TURNER'S CLAIM THAT ILECS SHOULD BE CONSIDERED "INDUSTRIAL" ELECTRICITY USERS FOR PURPOSES OF ASSESSING THE AC COMPONENT OF THEIR DC POWER RATES. (TURNER REBUTTAL AT 28).

A. Mr. Turner is mistaken. No Verizon FL central office takes energy from an industrial, or even an interruptible, power tariff. This should not come as a surprise to Mr. Turner because, according to the data AT&T provided in response to Verizon FL Interrogatory 8(g), **** Begin AT&T proprietary**

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** End AT&T proprietary

Q. **HOW DO MR. TURNER'S PROPOSED AC RATES FOR THE FLORIDA ILECS COMPARE TO AT&T'S OWN ACTUAL FLORIDA POWER RATES? (TURNER REBUTTAL AT 28).**

A. There is quite a discrepancy between them. Mr. Turner argues that ILEC AC power costs should be assumed to be $0.053 per kilowatt hour, but, as shown in BKE-10, AT&T's own Florida power rates average **** Begin AT&T proprietary** , **** End AT&T proprietary** which is much closer to Verizon FL's proposal of $0.0717 than to Mr. Turner's proposal.

This is a prime example of why the Commission should be suspicious of AT&T's proposed figures when they come from a consultant's alleged "experience," rather than Florida-specific, hard data. Mr. Turner obviously has access to this data, but has apparently failed to use it as the basis for his recommendations.

Q. **DO YOU AGREE WITH MR. CURRY'S ASSERTION THAT VERIZON FL'S PROPOSED COST FOR A 750 MCM CONNECTOR TAP IS OVERSTATED? (CURRY REBUTTAL AT 21).**

A. No. The cost of the 750 MCM connector tap comes from Verizon's GTEAMS database, which, as explained in Barbara Ellis's Direct Testimony, contains actual prices that Verizon has paid for materials,

and current and effective price quotes for materials that Verizon has not yet purchased. *See* Ellis Direct at 15. Thus, Mr. Curry's recommendation that Verizon FL defend this cost by obtaining vendor price quotes already has been satisfied.

In addition, Mr. Curry's comparison of the costs of 750 MCM connector taps with the costs for 500 MCM taps is invalid for two reasons: (1) 750 MCM taps cost more than 500 MCM taps; and (2) the figure that Mr. Curry cites for a 500 MCM tap is not a price paid nor even a vendor's quote, it is only an estimate from R.S. Means. We discuss above why the Commission should reject the use of R.S. Means data when actual, company-specific data are available.

Q. PLEASE RESPOND TO MR. CURRY'S ASSERTION THAT VERIZON FL SHOULD BE REQUIRED TO PROVIDE SUBSTANTIATION FOR COSTS THAT MAY BE APPLICABLE IN A REMOTE TERMINAL SCENARIO. (CURRY REBUTTAL AT 22).

A. No ALEC has ever requested remote terminal collocation. If and when ALECs begin requesting remote terminal collocation, Verizon FL will initially provision those arrangements on an Individual Case Basis ("ICB"), using general collocation rates as appropriate, and then will file appropriate rates. Until that time, Verizon FL should not have to speculate on the costs associated with remote terminal collocation.

d. Central Office Costs

Q. PLEASE RESPOND TO DR. GABEL'S ASSERTION THAT AVERAGE FLOOR SPACE COSTS SHOULD ONLY INCLUDE COSTS ASSOCIATED WITH CENTRAL OFFICES THAT CURRENTLY HOUSE COLLOCATORS. (GABEL REBUTTAL AT 28).

A. Dr. Gabel's suggestion would have little impact on Verizon FL's investment figures. All Verizon FL central offices that currently house collocators were included in the sample Verizon FL used to determine average floor space costs. That sample also included three central offices that do not currently house collocators. Removing those three offices would *increase* Verizon FL's average building investment by 20 cents per square foot, and thus would *increase* the associated monthly recurring rates by about three cents per square foot.

Q. DOES MR. TURNER AGREE WITH DR. GABEL THAT VERIZON FL'S METHOD FOR DETERMINING AVERAGE FLOOR SPACE INVESTMENTS SHOULD BE ADOPTED BY ALL THREE ILECS? (TURNER REBUTTAL AT 45-49).

A. No. Mr. Turner argues that R.S. Means estimates should be used to determine average floor space costs instead of actual cost data. For the reasons discussed in Part V of this testimony, the Commission should reject Mr. Turner's suggestion.

Q. PLEASE RESPOND TO MR. TURNER'S ASSERTION THAT "APPROXIMATELY 80% OF THE SPACE WITHIN CENTRAL OFFICES IS ASSIGNABLE TO TELECOMMUNICATIONS USE."

(TURNER REBUTTAL AT 48.)

A. Mr. Turner's point is not clear. Using an 80% assignability assumption as he proposes would *increase* Verizon FL's proposed average floor space costs.

Q. DOES DR. GABEL RAISE ANY ADDITIONAL CONCERNS WITH RESPECT TO VERIZON FL'S AVERAGE FLOOR SPACE COST ELEMENT? (GABEL REBUTTAL AT 9-12).

A. Yes. Although Dr. Gabel endorses Verizon FL's approach to determining average floor space costs, he suggests that Verizon FL may be double-counting certain costs relating to floor space — once in the Average Floor Space element, and a second time in certain specific elements. Specifically, Dr. Gabel asserts that Verizon FL may not have removed from the figures used to calculate average floor space costs the costs associated with security, overhead lighting, electrical receptacles, or its proposed Building Modification charge.

Q. PLEASE RESPOND TO DR. GABEL'S DOUBLE-COUNTING CONCERNS.

A. Verizon FL clearly has not included any collocation costs in its building investment data, because the building investment data are from 1998 and earlier — before there was any collocation in Verizon FL's offices. In the future, when Verizon FL updates its building investment data, it will remove all collocation-related expenditures that are booked to the building investment account.

Q. PLEASE ADDRESS MR. TURNER'S ARGUMENT THAT ILECS SHOULD NOT BE PERMITTED TO RECOVER BOTH THEIR BUILDING INVESTMENT *AND* THE BUILDING MODIFICATION COSTS THEY INCUR? (TURNER REBUTTAL AT 45-49).

A. Mr. Turner's argument rests on the premise that building modification costs would not be incurred in a forward-looking environment because forward-looking central offices would be built with collocation in mind. Even if that were true, the costs of conditioning space for collocation still would have to be borne, they just would be incurred in large part when the central offices were first constructed rather than when they were later modified. And even then, there would be changes in space utilization through the years that would require building modifications and further space conditioning.

Q. HAVE OTHER STATE COMMISSIONS ADDRESSED MR. TURNER'S ARGUMENT?

A. Yes. Mr. Turner's argument has been flatly rejected by the Massachusetts Department of Telecommunications and Energy, which cogently explained that "the fundamental difference between the Building Expense and Space Conditioning charges is that the former recovers costs associated with investments to the central office as a whole, whereas the latter recovers investments specific to collocation space."[12] In approving Verizon's proposed rate elements, the DTE went on to "note that the FCC recognizes that ILECs may incur additional

incremental space conditioning costs as a result of collocation, and [has] established minimum requirements to ensure cost recovery and to allocate costs equitably."[13] This Commission should likewise reject Mr. Turner's argument.

Q. DO YOU AGREE WITH MR. TURNER'S CLAIM THAT A CABLE RACK SHOULD BE ASSUMED TO HOLD 74 FIBER ENTRANCE CABLES? (TURNER REBUTTAL AT 49.)

A. No. Verizon FL's engineers determined that Verizon FL's collocation cost study should assume a 24-inch cable rack, which on average can hold 48 fiber entrance cables. Mr. Turner offers no support for his proposal, and does not appear to have the engineering expertise necessary to make such a determination.

Q. WHAT CONCERNS DOES DR. GABEL RAISE WITH RESPECT TO HOW VERIZON FL PROPOSES TO RECOVER ITS SECURITY COSTS? (GABEL REBUTTAL AT 40-41).

A. In addition to his concern that Verizon FL may be recovering security costs in both its Average Floor Space element and its Building Modification element, refuted above, Dr. Gabel argues that security costs should be apportioned according to floor space usage rather than pro rata among all the carriers (including Verizon FL) who benefit from the security measures.

Q. IS DR. GABEL'S ARGUMENT THAT SECURITY COSTS SHOULD BE

APPORTIONED ON A PER SQUARE FOOT BASIS RATHER THAN ON A PER PARTY BENEFITING BASIS REASONABLE?

A. No. The Commission decision cited by Dr. Gabel in support of his position should be reconsidered. The installation of a card reader system at a central office provides the same level of security to all occupants and the cost of the system is not in any way related to the size of the central office, or any resident's share thereof. Because *each* resident in a central office receives the full benefit of the security system protecting that central office, and because there is *no* relationship between the cost of the system and the floor space protected, it makes no sense to apportion system costs according to floor space. Instead, each central office resident protected by the security system should pay a pro rata share of the system's costs, as Verizon FL has proposed.

Q. ARE THERE FURTHER REASONS IT MAKES MORE SENSE TO ALLOCATE SECURITY COSTS ON A PRO RATA BASIS THAN ON A SQUARE FOOTAGE BASIS?

A. Yes. Advanced security systems are necessary only because of the requirement that ALECs be allowed to collocate in Verizon FL's central offices. Prior to collocation, Verizon's central offices were secured with a simple lock and key system, typically at the office's front entrance. Verizon now installs card reader systems to protect its central offices to provide easy entry to the ALECs while at the same time logging the entrance and exit of employees of many different companies. Thus, to allocate the costs associated with such card reader systems on a

square footage basis would force Verizon FL to absorb a much larger percentage of the costs that it incurred only because of collocation.

Thus, in Verizon FL's cost study, Verizon FL properly assigns pro rata security costs to itself as well as to an average number of ALECs per central office, so that all companies that benefit equally from the security devices pay equally for security costs. Verizon FL respectfully requests that the Commission revisit its cost allocation requirements for security equipment and endorse Verizon FL's pro rata approach.

Q. DR. GABEL ARGUES THAT THE NUMBER OF COLLOCATORS VERIZON FL ASSUMES IN ITS STUDY IS DRAMATICALLY UNDERSTATED. (GABEL REBUTTAL AT 40-41). IS HE CORRECT?

A. No. Dr. Gabel cites old data in attacking Verizon FL's assumption that four collocators would share security costs with Verizon FL. As Verizon FL explained in response to Staff Interrogatory 32(c), the most recent data available shows an average of ** ** collocators per Verizon FL central office with at least one collocator. In any event, raising the fill factor in the Building Modification rate element from four to five would result in a 7.5% reduction of that element, from $237.96 to $220.16.

Q. IF VERIZON FL WERE ORDERED TO CHARGE FOR SECURITY ON A PER SQUARE FOOT BASIS, WOULD VERIZON FL HAVE TO MAKE OTHER CHANGES TO ITS STUDY?

A. Yes. To recover security costs on a per square foot basis, Verizon FL

would have to remove security-related costs from its building modification rate, apportion those costs on a per square foot basis, and add the costs into its basic floor space rate. Removing security costs from the building modification rate would lower that rate from $237.96 per month to $163.29 per month. Adding security costs into the floor space rate would raise that rate by $0.37 per square foot per month. In other words, an ALEC with a 100 square foot cage would pay $74.67 per month to cover its share of security costs under Verizon FL's proposal, but would pay only half that amount under Dr. Gabel's proposal.

Q. DOES IT TAKE ONLY TEN HOURS TO PRODUCE A CENTRAL OFFICE SPACE REPORT, AS DR. GABEL ALLEGES? (GABEL REBUTTAL AT 47-49).

A. No. As Verizon demonstrates in response to Staff Interrogatory 72, Dr. Gabel's recommendation that the time allowed to produce a space report be limited to ten hours would not allow for enough time to gather the information required to produce a report of such detail as Verizon offers. *See* Verizon FL Response to Staff Interrogatory 72.

In any event, no ALEC has ever ordered a space report in any Verizon West jurisdiction, primarily because Verizon provides a list of space exhausted central offices on the Internet free of charge.

e. Engineering

Q. PLEASE RESPOND TO DR. GABEL'S SUGGESTION THAT VERIZON'S ESTABLISH A "PRE-ACCEPTANCE FEE" TO RECOVER THE COSTS ASSOCIATED WITH THE INITIAL SITE AUDIT, RATHER THAN INCLUDING THESE COSTS IN THE ENGINEERING/MAJOR AUGMENT FEE. (GABEL REBUTTAL AT 39-40).

A. In Verizon FL's experience. no ALEC has decided not to go ahead with the collocation arrangement after receiving its price quote. Thus, Dr. Gabel's proposal would lead to unnecessary administrative costs.

VII. THE COMMISSION SHOULD NOT ARBITRARILY REDUCE VERIZON FL'S PROPOSED COLLOCATION RATES.

Q. SHOULD THE COMMISSION REDUCE A PARTICULAR VERIZON FL PROPOSED RATE, EVEN IF NO PARTY CHALLENGED IT? (GABEL REBUTTAL AT 52-53).

A. No. The Commission may not reduce a particular rate in the absence of any specific evidence demonstrating that it is incorrect. Indeed, such an approach is directly at odds with Dr. Gabel's own recognition that "[t]here are a number of rates that I reviewed and I found to be reasonable." Gabel Rebuttal at 53.

Thus, because Verizon FL has proposed a number of rates that even Dr. Gabel has found to be reasonable, Dr. Gabel's assertion that there could be "a systematic overstatement of costs or general methodological flaw . . . applicable to [Verizon FL's] entire cost submission," *id.* at 52-53, makes no sense. Indeed, as Dr. Gabel himself notes, "it would be

inappropriate to lower these rates because it would establish rates that are below the cost of service." *Id.* at 53.

Q. PLEASE SUMMARIZE HOW THE COMMISSION SHOULD SET COLLOCATION COSTS (AND THUS RATES) FOR VERIZON FL IN THIS PROCEEDING.

A. The Commission should reject Mr. Turner's proposals and proceed to consider the only cost study before it that purports to account for Verizon FL's company-specific business and offerings: Verizon FL's collocation cost study. In those limited instances where Verizon FL's proposed cost elements are subject to challenge, the Commission should carefully weigh the evidence submitted by Verizon FL in support of its costs against any countervailing evidence and should adjust Verizon FL's proposed cost elements only if and as appropriate. Finally, the Commission should adopt any cost elements submitted by Verizon FL that no witness has challenged in rebuttal testimony (and that remain unchallenged throughout this proceeding).

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[1] Although we are not lawyers, we understand from our attorneys that the Federal Communications Commission ("FCC") has never wavered from its original mandate that UNE cost proceedings produce "costs that incumbents actually expect to incur in making network elements available to new entrants." First Report and Order, *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 FCC Rcd 15499 ¶ 685 (1996). *See* Reply Brief for Petitioner Federal Communications Commission and the United States, *Verizon Communications, Inc. v. FCC*, at 6 (2002) ("The costs measured by TELRIC are nonetheless those *of the incumbent itself.*") (emphasis added).

[2] *See* Verizon FL Exhibit BKE-9, at 7; Verizon FL Responses to Staff Interrogatories 221-223; Sprint Responses to Staff Interrogatories 51-53.

[3] *In the Matter of Investigation into Pricing of Unbundled Network Elements* (Sprint/Verizon Track), Docket No. 990649B-TP, Transcript of Special Agenda Conference (Oct. 14, 2002) at 13 (remarks of Commissioner Deason).

[4] Indeed, the Commission is currently considering whether ILECs have the obligation to offer these services. *See* Verizon Florida Inc.'s Post-Hearing Statement and Brief, filed in Docket Nos. 981834-TP & 990321-TP on September 9, 2003, at 8-9, 20-22.

[5] Fourth Report and Order, *In the Matter of Deployment of Wireline Services Offering Advanced Telecommunications Capability*, 16 FCC Rcd 15435 ¶ 90 (2001).

[6] *See id.* ("An incumbent is far more familiar with the design and layout of its premises than are its competitors, who neither own nor manage those premises."); *see also id.* at ¶ 91 ("Ultimately, it is the incumbent who will be responsible for planning and maintaining the premises for the benefit of all users — the incumbent, its affiliates and subsidiaries, and other collocators. Allowing requesting carriers to exercise primary decision-making authority over space assignment decisions would give those carriers the ability to usurp an incumbent LEC's right to manage its own property.").

[7] For example, Verizon requires the vendors it hires to comply with all Verizon policies and practices as issued by Verizon's Central Office Equipment Installation (COEI), National Operations, Network Engineering, and Quality Groups. These policies and practices include, but are not limited to: Information Publication (IP72202), Engineering Flashes, Field Support and Quality Bulletins, High Risk Activity, NOC/NCC 02-051, Safe Time practices, Method of Procedure (MOP), and Completion Notification/End of Job Review. Verizon also requires its vendors to comply with all Telcordia documentation, Network Equipment Building System (NEBS) requirements, and the National Electrical Code (NEC).

[8] *See, e.g., id.* at iv.

[9] Final Order on Rates for Unbundled Network Elements Provided by BellSouth, *In re Investigation into Pricing of Unbundled Network Elements*, Docket No. 990649-TP, Order No. PSC-01-1181-FOF-TP, at 392-95 (May 25, 2001).

[10] Second Report and Order, *In the Matter of Local Exchange Carriers' Rates, Terms, and Conditions for Expanded Interconnection through Physical Collocation for Special Access and Switched Transport*, 12 FCC Rcd 18730 ¶ 205 (1997).

[11] While we cannot be certain how often Sprint overstates the footage in the denominator of its cost per linear foot equation, it may be as often as two-thirds of the time. *See* Sprint Response to AT&T POD 8, invoices 39130581, 39119641, 39118994, 39116580 and

39114086 (all using 40 linear feet in the denominator without indicating whether the cages actually were able to make use of existing walls).

[12] DTE 01-20 Part A, *Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Pricing, based upon Total Element Long-Run Incremental Costs, for Unbundled Network Elements and Combinations of Unbundled Network Elements, and the Appropriate Avoided-Cost Discount for Verizon New England, Inc. d/b/a Verizon Massachusetts' Resale Services in the Commonwealth of Massachusetts*, at 384 (July 11, 2002), *affirmed*, DTE 01-20-Part A-A, *Order on Motions by Verizon Massachusetts, AT&T Communications of New England, Inc., and CLEC Coalition for Partial Reconsideration and Clarification and on Motions by WorldCom, Inc. and Z-Tel Communications for Partial Reconsideration* (January 14, 2003).

[13] *Id.* (citing Advanced Services Order at ¶ 51).

BY MR. McCUAIG:

Q Ms. Ellis, would you please give you and Mr. Bailey's summary for the record.

A (By Ms. Ellis) Thank you. Good morning. Verizon's cost study has one major thing in common with BellSouth's and Sprint's. It's a forward-looking model that's designed to reflect the way that Verizon provides collocation services to CLECs, just as the BellSouth and Sprint studies reflect their business practices.

The Verizon study is based on the costs that we expect to incur to provide collocation in Florida using Florida-specific material and labor costs. These costs reflect Verizon's economies of scale and do not differ from the cost basis that Verizon itself uses for internal budgeting and planning purposes.

The material cost estimates included in the model have also been shown to be competitive in the open market because they are not only available to Verizon but to other non-Verizon entities such as BellSouth, for example, in the competitive market. Verizon has provided BellSouth with significant materials and inventory management out of the same material management system that Verizon uses to provide materials to ALECs.

Again, Verizon's cost model was designed to reflect our practices and procedures and is compatible with our

accounting and billing systems, just as BellSouth's and Sprint's models are designed to reflect how they provide collocation. Verizon has taken great care to design its model to be harmonious with our UNE rate structure in order to avoid double counting between studies.

Verizon's rates and costs have been largely unchallenged, and in fact, some have been specifically endorsed. For example, Dr. Gabel has supported Verizon's methodology for developing floor space costs in this proceeding. There have also been some minor issues raised again such as Dr. Gabel's concern that Verizon was double counting cable vault investment in its floor space rates. Verizon reviewed this concern and agreed with his assessment. And we removed all appropriate rate elements that were associated with the cable vault investment in its revised cost study that was filed with my surrebuttal testimony. Other issues that were raised we've addressed in our surrebuttal testimony and in the revised cost study.

AT&T's proposal to require Verizon to use BellSouth's cost model rate structure and inputs as the basis for the rates made available to ALECs in Verizon Florida's central offices is a proposal that will result in Verizon Florida's operations being entirely out of alignment with the practices and procedures, rate structures, billing and accounting systems and costs that Verizon offers in other states. Like Sprint, we

don't have the resources to develop a Florida model based on BellSouth's cost model that they have provided in this proceeding. We have two individuals that are responsible for collocation across the entire Verizon footprint, which is, you know, numerous states, and to impose that type of burden on Verizon is wrong.

The application of BellSouth's cost model inputs and accounting systems to Verizon is wrong and will promote great inefficiency in terms of us providing collocation to ALECs in Florida. Thank you.

MR. McCUAIG: The witnesses are available for cross-examination.

CHAIRMAN BAEZ: Mr. Kassman.

MR. KASSMAN: I have no questions.

CHAIRMAN BAEZ: Mr. Hatch.

MR. HATCH: Mr. Watkins was going to go before me.

CHAIRMAN BAEZ: Okay. Mr. Watkins.

CROSS EXAMINATION

BY MR. WATKINS:

Q Good morning, Ms. Ellis and Mr. Bailey. My name is Gene Watkins; I represent Covad Communications. I think we've met before. But we have not; is that right?

A (By Ms. Ellis) Good morning.

Q I hope that giant club beside you is purely for demonstrative purposes, Mr. Bailey.

A (By Mr. Bailey) Yes, sir, it is.

Q I'd like to show you something that's been passed around all day yesterday and is going to be passed around today hopefully for only the beginning part of the day. This does not look like the one that was passed around yesterday. It is different in two specific ways. The first is the numbers in the -- the bottom table for Verizon have changed. The total MRC has not, but the percentages in negotiation with counsel have been corrected to numbers I believe -- would you agree that those are accurate at least out to the infrastructure percentage for Verizon?

A (By Ms. Ellis) Yes.

Q Okay. And there's been some footnotes added for clarification purposes also as a consequence of talks with counsel.

Would you also agree, Ms. Ellis, with the accuracy of the Verizon numbers in the top table? Indeed, those were provided to us in a discovery response from Verizon dated September 9, 2003 --

A Yes.

Q -- is that right?

A Yes.

Q More recently, Verizon provided Covad a discovery response that provided us with the nonrecurring charge that Verizon would ask this Commission to adopt if it were ordered

to provide a nonrecurring cost to recover only its infrastructure costs. Does that yellow highlighted number on this chart accurately reflect Verizon's answer to that inquiry?

A Yes.

Q Thank you. So based on that, would it be fair for me to assume that if Covad paid Verizon that nonrecurring charge per amp that we requested to be available, Verizon would feel that it had been properly compensated for its costs associated with providing that one amp of power?

A The infrastructure NRC rate that we provided simply reflects the investment per amp in our DC power study. And as you noted here in the footnote, there would be changes on the MRC side for the maintenance because we did not include emergency generator testing in that number.

With respect to whether we would be appropriately compensated, that number that's highlighted in yellow does not include any interest costs or time value of money, for example. It is simply reflected of the investment in our power plant.

Q Is that a yes? Please understand --

A Yes.

Q Okay. So if today Covad paid Verizon (confidential number redacted) -- oops, excuse me, the number reflected in that --

MR. McCUAIG: I'm going to object at this point. It seems to me that counsel is now heading down the NRC-MRC

division that he swore yesterday he wasn't going to head down. This doesn't seem to be an analysis of our monthly recurring rates at all.

CHAIRMAN BAEZ: Mr. Watkins, do you have a response?

MR. WATKINS: That is a legitimate objection right now. It will not be a legitimate objection in a few moments. I appear to be headed that way, I assure you I am not.

CHAIRMAN BAEZ: I'll take your assurances. Go ahead.

BY MR. WATKINS:

Q So if this Commission adopted the monthly recurring charge that is reflected in this chart -- well, you responded about time value and money, so let's get time value and money clear. Time value and money is if I'm going to pay $100 over a ten-month period at $100 a month -- $1,000 at $100 a month, the time value of the money that I paid at the first month is not just the $100 that I paid at the end of that ten-month period, it's going to be more.

A Right.

Q So if the Commission adopted Verizon's monthly recurring charge reflected in this chart and I applied the infrastructure percentage to what Verizon asserts that would be an appropriate compensation today, I would -- just ignoring the time value of the fact that I'm paying it over time, I would pay that total amount of money in three-and-a-quarter years; is that correct?

A I will agree that if you take the infrastructure NRC number and divide it by the percentage -- or by the infrastructure MRC number, you would get 39 months. However, I vehemently disagree with the fact that that's an appropriate analysis. That would be comparable to saying that when you, for example, buy a house, you have the purchase cost of the house and you were to divide that by the monthly payment, which includes interest and other taxes and such, to determine how long it should take to be compensated. In other words, the months to total compensation is not an accurate calculation in my eyes.

Q Well, the same time value of money that would apply to the monthly recurring charge payment itself would equally apply to the infrastructure nonrecurring charge. I mean, they would march along at the same rate. So those would even out, wouldn't they?

A No. If I were to purchase a $100,000 house, and that's the sale price of the house, which that number would equate to this infrastructure NRC number, and then I were to take the monthly payment for that house, which includes interest and in this case also probably taxes and insurance, but -- and, say, that mortgage payment would be $1,000 a month, that mortgage payment divided into the sale price of the house does not reflect the cost to completely pay for the house because the mortgage company, when they determine your mortgage

payment, includes the interest based on the time of the loan.

Q Is the number that Verizon used to develop its monthly recurring charge of $19.43 for the infrastructure portion of that higher or lower than the number in the highlighted space?

A It's a monthly number, so certainly it would be lower. I mean, you're comparing a $15.50 monthly cost to an investment per amp.

Q Yeah. When you arrived at $15.50 as a fair monthly recurring charge to recover your infrastructure costs, were you using a number that was higher or lower than the infrastructure nonrecurring charge that you provided Covad in response to discovery that's reflected on this chart?

A They're completely two different animals, so to speak. The infrastructure is simply --

Q Is it a bigger or smaller animal?

A Well, the monthly recurring charge is by nature a smaller number because you apply annual cost factor to develop an analyzed cost and divide by 12.

Q You would not disagree that the mathematics are correct; that is, in three-and-a-quarter years at the proposed rate by Verizon in this docket, Verizon would have received the amount of money that it is representing it should receive today for the infrastructure portion of its costs?

A I don't agree with that, because if we were to equate

the infrastructure costs on a monthly basis to the investment per amp, we would need to increase the investment per amp to reflect the time period over which that asset will be in use, which is, I believe in our case, 12 years. So if we add 12 years of time value of money to that number that's highlighted, then I would say that you could divide and get a more representative months to total compensation as you've labeled it.

Q Wouldn't that be a larger number than the number that's highlighted on this chart?

A The number that's on -- the highlighted number?

Q (Nodding head affirmatively.)

A Yes.

Q I thought you just told me you used a lower number to develop your monthly recurring charge?

A I guess I was confused by your question because I thought you were asking me whether the infrastructure number in the MRC side was lower than the infrastructure NRC. I mean, that was the question I answered. I may have misinterpreted your question.

Q Are you aware that Covad has 24 collocations with Verizon that have been in operation since March of 2000?

A I'm not certain of the number of arrangements Covad specifically has, no.

Q Are you aware that the -- are you familiar with the

FCC pricing rules?

A Yes.

Q Are you aware that the FCC pricing rules expressly provide that Verizon shall not be permitted to recover more than the total forward-looking cost of providing the applicable element?

MR. McCUAIG: Objection. Calls for a legal conclusion from a witness who's not put forward as a legal witness.

MR. WATKINS: I asked her if she had reviewed the rules. Now I'm asking if she's aware of a specific one of them.

MR. McCUAIG: Well, the rules provide for many things that are easy to follow for a layperson. They also provide for legal conclusions. In this case you asked if she reviewed the rules -- in this case counsel asked if she reviewed the rules and then asked for a legal conclusion regarding those rules.

CHAIRMAN BAEZ: You can show her the rule, have her --

MR. WATKINS: Okay. I withdraw the question.

BY MR. WATKINS:

Q For a company like Covad that's been in operation in the Verizon territory for already 47 months --

MR. McCUAIG: Objection. Counsel is now testifying.

CHAIRMAN BAEZ: I think he's just leading up to the

question. But make it short, Mr. Watkins.

MR. WATKINS: Absolutely.

BY MR. WATKINS:

Q -- and who will be paying these monthly recurring charges into the future, if Verizon's infrastructure costs at the time they are -- you provide an amp of power to Covad, it's (confidential number redacted). Would you agree with me?

CHAIRMAN BAEZ: Mr. Watkins, I think we reached that point which --

MR. WATKINS: I apologize. I have not had enough coffee this morning.

CHAIRMAN BAEZ: We've been dancing around this thing for a whole day now. Please --

MR. WATKINS: That's all I have.

CHAIRMAN BAEZ: Thank you.

Mr. Hatch.

CROSS EXAMINATION

BY MR. HATCH:

Q Ms. Ellis, I'm Tracy Hatch. I'll be asking you just a couple of brief questions on behalf of AT&T. Good morning.

A Good morning.

Q Would it be a fair characterization of your testimony that you disagree with Mr. Turner's proposal that there be a standardized cost model for setting collocation rates in Florida; is that correct?

A Yes.

Q And would it also be a fair characterization of your testimony that one of your objections is that it would force Verizon to change its accounting and billing systems in order to accomplish -- or in order to, I guess, participate or use a standardized model; is that correct?

A That is one concern, yes.

Q Now, are you aware of the Commission's proceeding in 1998 dealing with the cost of basic local service? Do you recall anything about that?

A No.

Q That's fine. Are you aware of the FCC's model that it uses for calculation of costs for universal service?

A Yes.

Q The synthesis model; is that correct?

A Yes.

Q For Verizon to produce information for use in the synthesis model, did it have to overhaul or change its accounting and billing systems?

A We did not have to overhaul the systems. However, we certainly had to spend a lot of time modifying the data that came out of our accounting systems to fit into the input structure that was used in the synthesis model.

Q In the FCC's universal service proceedings prior to the synthesis model being adopted, I believe Verizon supported

the BCPM model; is that correct?

A Initially, we did prior -- while we were still in the development of our company-specific model, for that purpose, yes.

Q Did you change your billing and accounting systems to accommodate the use of the BCPM model?

A To a great extent we managed to do the same thing that we did with inputs that went into the FCC model. There were modifications to the data that had to be made to fit into that structure, yes.

Q Could you turn to Page 16 of the surrebuttal testimony? I'm not sure if this is a Mr. Bailey question or not. I suspect that it may be.

On Line 1 of your testimony on Page 16, do you see the sentence where it says, "For example"?

A Yes.

Q It says, "Verizon Florida provides cross-connect facilities and offers power cables (the ALECs also have the option to supply their own);" is that correct?

A Yes.

Q And then going down to Line 12, the sentence beginning on Line 11 and continuing on to 12 and to Line 14, you talk at the center of that sentence about "and remove options currently available to ALECs." Could you explain what those options are?

A Well, we provide the ALECs with the option to purchase their own cables. We have numerous rate elements that are not reflected in BellSouth's model. We have options for the ALECs to either allow us to build their cages or build them themselves. And there are a lot of differences along those lines that are contrary to the practices that BellSouth has.

Q How would a standardized cost model preclude you from offering those options?

A Well, BellSouth's model, for example, does not provide any rate elements or costs associated with pulling cables; therefore, the adoption of BellSouth's model and structure would preclude us from offering that to our ALECs.

Q Are you aware that BellSouth allows CLECs using BellSouth-certified vendors to install cables?

A I'm aware of that.

Q And Verizon doesn't do that, or do they?

A (By Mr. Bailey) That's correct, we don't allow that.

Q If BellSouth allows it, then how is it that their model would preclude you from allowing it?

A (By Ms. Ellis) Well, there were numerous data requests to BellSouth with respect to the ease of adding elements to their cost study. And my recollection of their response was that that was not something that was easily done.

Q Did Verizon ask any data request of BellSouth?

A I don't believe we did.

Q Now, does Verizon use certified vendors in its central office for cabling to BDFBs?

A (By Mr. Bailey) As a rule, generally we use our own people. If there was a shortage, we would use a vendor that was approved to work on the network.

Q If you use vendors to do work on the BDFB, what would be your objection to allowing a CLEC to hire the same vendor that you've approved to work on your BDFB?

MR. McCUAIG: Objection. This is relitigating an issue that was decided in the Phase I order.

MR. HATCH: It's in the surrebuttal testimony on Page 18.

MR. McCUAIG: Which was filed before the Phase I order came out.

MR. HATCH: This is testimony -- unless they're willing to withdraw this testimony from this proceeding or modify it substantially.

CHAIRMAN BAEZ: It seems Mr. Hatch has a right to cross-examine on the testimony. Now, it's a reasonable option, Mr. McCuaig.

MR. McCUAIG: Give me one second to review the testimony, please.

CHAIRMAN BAEZ: Sure.

Mr. McCuaig, let me attempt to save you some time. To the extent that it's an issue that's been relitigated, it's

going to get picked up.

MR. McCUAIG: Okay. I'll withdraw my --

CHAIRMAN BAEZ: We're not going to open up something that's already closed, but that's a decision I guess --

MR. McCUAIG: Okay. I'll withdraw my objection. Thank you.

CHAIRMAN BAEZ: Mr. Hatch, go ahead.

BY MR. HATCH:

Q The question is pending.

A I'm sorry. Could you repeat the question, please?

Q To the extent that a CLEC hires the same vendor or an approved -- or a Verizon-approved vendor to do work on the BDFB, what would be Verizon's objection?

A It's an issue of accountability. If a CLEC hires the vendor, the vendor is accountable to them, not to us. However, Verizon remains accountable to the regulatory commissions and to network users as a whole for keeping the network in good operating condition. If there is an issue that occurs, then there's this issue of defused responsibility, and we don't have a recourse with that vendor.

If we were going to be required to allow this, we would have structured the network differently. We would have placed the BDFBs that were going to be used by the CLECs away from the BDFBs that are used by Verizon's customers. So that's -- the issue is accountability.

Q One of the points that you make in your testimony is that when you have a system failure, you have to report those to regulatory bodies; is that correct?

A Yes.

Q Now, when Verizon's approved vendor makes an error and causes an outage, when you report to that regulatory body, do you not say in your report, my vendor did this?

A I don't know exactly what is reported to the regulatory commission, but to the extent something like that would be required, we wouldn't be able to make that statement because it wouldn't be our vendor. In that situation it's a vendor the ALEC hired.

Q I think you're confusing my question. In a situation where Verizon is hiring its vendor to do work in its central office and an outage is caused by Verizon's vendor, in its report to a regulatory body would it not say it was caused by my vendor's activity doing "X"?

A I understand your question now. And again, I don't know exactly what goes into the report. It's conceivable that that might be something that we would say. I think the Commission asked questions more along the lines of how long did the outage occur, how quickly did you restore it, those sorts of things, but I don't know for sure.

Q And in the same vein, if an ALEC who had hired a Verizon-approved vendor and that vendor caused an outage, then

the report would be the same?

A I mean, the reporting is an after-the-fact issue. You know, the concern is getting the customers back up and working. And then if there is issues about, well, this cost me a lot of money because you -- this -- because of the outage, whose responsibility is that now? Is that the CLEC's responsibility because they're the ones that hired the vendor that caused the outage, so any issues like that should be directed to them?

Q Wouldn't you expect that Verizon would hold the CLEC responsible?

A Well, that's what I ask in my testimony, is that if we're required to do this, my attorney has said that the CLEC and the vendor need to be jointly and severably liable, whatever that means.

MR. HATCH: You probably don't want to know. I may be done. Hold on a moment. That's all I've got. Thank you.

CHAIRMAN BAEZ: Thank you, Mr. Hatch. Mr. Teitzman.

CROSS EXAMINATION

BY MR. TEITZMAN:

Q Good morning, Ms. Ellis, Mr. Bailey.

A (By Mr. Ellis) Good morning.

A (By Ms. Bailey) Good morning.

Q In this proceeding, Verizon filed a dedicated transit study where CLECs can order elements in order to connect to

other CLECs; is that correct?

A (By Ms. Ellis) That's correct.

Q Have dedicated transit arrangements been ordered in the state of Florida?

A No.

Q Are there monthly recurring costs associated with dedicated transit service?

A (By Mr. Bailey) There's no MRCs in the DTS rate structure. Maybe to help clarify just a little bit, DTS takes what Verizon calls a cross-connect. I think it's different language than what BellSouth uses, but we define the cross-connect as the connection from the cage to the frame. So two collocators have ordered cross-connects, say, to a DSX panel. If they order DTS, we charge an NRC for the jumper on the DSX panel to connect the two cross-connects.

Q In Verizon's dedicated transit study, it distinguishes a disconnect order and a change order; is that correct?

A (By Ms. Ellis) Yes.

Q And the difference between those two orders is?

A Could you point me to exactly where you're --

Q I believe it's mentioned throughout the study, but I think if you look at Section 2, Page 2, it references both a disconnect order and a change order.

A Well, a disconnect order would involve physically

disconnecting the jumpers, whereas the change order, I believe, reflects making a change to the existing connection.

Q In this proceeding, Verizon is proposing a fixed allocator of 14.09 percent; is that correct?

A Yes.

Q Is the fixed allocator of 14.09 percent what was approved by this Commission in the Verizon UNE order?

A The fixed allocator of 14.09 percent was the allocator that was proposed in the UNE proceeding; that the Commission ordered a lower number, and I'm not sure exactly what that number is, but we have appealed that and we have not had an order on that yet.

Q So to clarify, the answer to the question is no; correct?

A That's correct. Sorry.

Q And subject to check, would you agree that 12.12 percent is what this Commission ordered?

A Subject to check, yes.

Q And would you agree that a lower fixed allocator would reduce Verizon's monthly recurring collocation rates?

A Yes.

MR. TEITZMAN: Chairman, permission to approach the witness.

CHAIRMAN BAEZ: Sure.

MR. TEITZMAN: Mr. Brown is going to hand out an

exhibit entitled, "Verizon's Proposed Collocation Rates And Staff's Revised 12.12 Percent Allocator Adjusted For Changes In The Fixed Allocator."

Chairman, I'd like to note that we allowed Mr. McCuaig, Verizon's counsel, to have a look at this document before this morning, and he did not object to the document on its face, although he did state that he would like to check the calculations on the document.

MR. McCUAIG: Actually, I'd like the witness to have a chance to check the calculations on the document. At Mr. Teitzman's request, I have not shared the document with the witnesses.

CHAIRMAN BAEZ: Okay.

MS. ELLIS: These are a lot of calculations to check. I will accept on the face that the math is correct and, you know, I mean, subject to check.

MR. TEITZMAN: I'll preface my questions with subject to a check of the calculations.

CHAIRMAN BAEZ: Very well. Mr. Teitzman, you want to give this a number or --

MR. TEITZMAN: Yes. I believe we're up to Hearing Exhibit 50. So we'd like to have this marked as Hearing Exhibit 50.

CHAIRMAN BAEZ: Yes, sir. And short title, "Verizon Proposed Collocation Rates Based On Staff's Revised

Allocators."

MR. TEITZMAN: I think that's adequate.

(Exhibit 50 marked for identification.)

BY MR. TEITZMAN:

Q Ms. Ellis, you've had an opportunity to review?

A Yes.

Q Looking at the columns entitled, "Revised Filing Total" and "Staff's Revised Allocator Total," would you agree, subject to a check of the calculations, that's staff revised allocator total of 7,272.67 is lower than Verizon's revised allocator of $7,297.63?

A Yes.

Q Would you also agree, subject to a check of the calculations, that the change in monthly recurring costs between staff's revised allocator total and Verizon's revised filing total is $24.96 for this collocation arrangement?

A Yes.

Q In this scenario would you agree, subject to a check of the calculations, that by examining the Verizon revised filing price using a 14.09 percent allocator and staff's revised price using a 12.12 percent allocator results in lower collocation rates?

A Yes.

Q I'd like to now direct your attention to Page 2 of the exhibit. Looking at the columns entitled, "Revised Filing

Total" and "Staff's Revised Allocator Total," would you agree, subject to a check of the calculations, that staff's revised allocator total of $2,166.26 is lower than Verizon's revised allocator of $2,178.28?

A Yes.

Q Would you also agree, subject to a check of the calculations, that the total change in monthly recurring costs between staff's revised allocator total and Verizon's revised filing total is $12.02 for this collocation arrangement?

A Yes.

Q In this scenario would you agree, once again, subject to a check of the calculations, that by examining the Verizon revised filing price using a 14.09 percent allocator and staff's revised price using a 12.12 percent allocator results in a lower collocation rate -- or lower collocation rates?

A Yes.

Q I have one more question not related to this exhibit. In BellSouth's surrebuttal testimony, there's a discussion of collocation cable records charge. How does Verizon recover for this type of activity?

Let me rephrase the question. Does Verizon recover for this type of activity?

A No, we don't.

MR. TEITZMAN: No further questions.

CHAIRMAN BAEZ: Commissioners, any questions? Do you

have one? Commissioner Jaber.

COMMISSIONER JABER: I just wanted to fill in that chart, witnesses, that I referenced yesterday. I think you were in the room when I said that I was just trying to get clear in my mind what collocation services you offer before I even understand whether the same collocation cost study should apply to all the companies. And to be clear on that, you do, obviously, you have the physical collocation.

MS. ELLIS: Yes.

MR. BAILEY: Yes.

COMMISSIONER JABER: And I'm assuming there's nothing that varies in that regard between you all and Bell and Sprint. You allow the ALEC collocator or any collocator to own the equipment, and they do their own maintenance and repair.

MR. BAILEY: That's correct, in a physical arrangement.

COMMISSIONER JABER: Virtual collocation.

MR. BAILEY: Yes, ma'am, we have that.

COMMISSIONER JABER: And again, same situation. You lease the collo's equipment at some nominal fee?

MR. BAILEY: That's correct.

COMMISSIONER JABER: And you charge the collo for maintenance and repair?

MR. BAILEY: Yes, ma'am.

COMMISSIONER JABER: Do you allow them to use their

own technicians at all?

MR. BAILEY: No, ma'am.

COMMISSIONER JABER: Okay. Sprint brought up yesterday, when I asked that question, the cost would vary in that regard from the other ILECs because your labor rates -- or their labor rates are set pursuant to labor union contracts. Is that true for Verizon as well?

MR. BAILEY: Not in Florida.

COMMISSIONER JABER: So for Verizon Florida, should I assume that each labor contract is very contract specific to who you use?

MS. ELLIS: Verizon Florida, the labor costs that we include in the study are comprised of two different types of costs. One is the use of our own employees. And we have a loaded labor rate. We also use single source provider contracts where we actually go out and competitively bid for various activities. And given the demand for that type of work, vis-a-vis our resources to perform it, we use a blend of our labor and the single source provider labor.

COMMISSIONER JABER: So you use the RFP process, and I'm assuming you select the most cost-effective bid.

MS. ELLIS: Yes. And we do it by zones. In Florida we have areas that are very dense, Tampa, for example, and other areas that aren't as dense. So we actually have multiple single source providers throughout the state, and they bid on

specific areas within the state.

COMMISSIONER JABER: Okay. Adjacent collocation, do you --

MR. BAILEY: Yes, ma'am, that's an option.

COMMISSIONER JABER: And what's involved with that? If I understood the BellSouth testimony, it's where they allow physical collocation on their property, not necessarily in their --

MR. BAILEY: Right. That's not inside our central office. That's when the CLEC would place a hut or a CEV or something on our property, and then they would do the collocation in that building.

COMMISSIONER JABER: Okay. So where are your costs in that situation, and where are the CLEC costs in that situation?

MS. ELLIS: In the adjacent arrangements, the CLEC would be responsible for constructing the structure as well as providing their own DC power. And our elements entail basically the activity that would incur inside the central office, connecting the facility cables and such.

COMMISSIONER JABER: Do they have to meet your construction specifications?

MR. BAILEY: You mean in terms of the building? I mean --

COMMISSIONER JABER: Yes.

MR. BAILEY: -- the same rules that the other ILECs mentioned about getting the -- meeting the codes and getting the approvals and the -- it wouldn't be a right-of-way issue, but those all apply. Is that what you're asking?

COMMISSIONER JABER: Yes. Well, the BellSouth testimony indicated that to the degree that there were restrictions on how something was to be constructed in their property, BellSouth would have to approve --

MR. BAILEY: That's correct. The same applies for Verizon.

COMMISSIONER JABER: Okay. Remote terminal collocation.

MS. ELLIS: We do not offer that.

COMMISSIONER JABER: And Assembly Point, what BellSouth is calling Assembly Point.

MS. ELLIS: That would be our dedicated transit service, DTS.

COMMISSIONER JABER: I'm sorry. You call it dedicated --

MS. ELLIS: Transit service or DTS.

COMMISSIONER JABER: And --

MR. BAILEY: No, ma'am, we don't --

COMMISSIONER JABER: Go ahead. Take a moment and check that, please.

MR. BAILEY: No, ma'am, we don't offer Assembly

Point. DTS is a product that's used to connect two physical -- or two collocation arrangements inside the central office together. That's different than the BellSouth Assembly Point offering. We don't have that offering in Florida.

COMMISSIONER JABER: Okay. Now, what you just explained, the dedicated transit service, that would be two different cages?

MR. BAILEY: Or a cage to a virtual arrangement -- I mean, two arrangements within the central office that need to be connected together, the way that you would do that is to order DTS service.

COMMISSIONER JABER: Two different companies?

MR. BAILEY: Absolutely.

MS. ELLIS: Yes.

COMMISSIONER JABER: All right. I'm with you. And my last question is really as it relates to Verizon Florida versus all your other Verizon states. The cost model that you propose we accept for you in this proceeding, is it the same cost model that you use in your other Verizon states?

MS. ELLIS: It is the same cost model that we use in the former GTE footprint at the moment. It is not the same model that is used in the former Bell Atlantic area.

COMMISSIONER JABER: Okay. Now, as it relates to the former GTE states, if the notion is true that costs vary and therefore a single cost model is inappropriate, then why are

you using your Verizon Florida cost model in other GTE states?

MS. ELLIS: The cost model itself, the way it is structured, the rate elements that we use, the input -- the source of the inputs are all the same. In every state that we file in the former GTE area, we make labor costs, material costs, and all those types of -- you know, property taxes, sales taxes, provisioning costs, all of those costs are unique to that state, but the actual model itself is pretty much the same. Now, obviously as we go forward we may change a few things or enhance things, but the basic structure and rate elements that they produce are the same across the footprint.

COMMISSIONER JABER: And for those things that are variable or will differ from state to state, how do you account for that?

MS. ELLIS: Well, the material management system we use, for example, GTEAMS, although the base material price is the same from state to state, because it all comes out of one inventory system, the cost of transport, shipping, taxes, if there are any supply costs, will vary by state. For labor costs, our loaded labor rates vary by state. For DC power, for example, the way we do our DC power study, in each state we look at the percentage of lines that fall within the certain categories with which we provide -- we have a study that looks at the -- it ties the power needs to the size of the office and the switch.

So in Florida where we have more larger offices than we would, say, in Nevada, those larger offices and the larger power plants that we provide in Florida are given a greater weighting because we actually develop a weighted cost per amp based on the distribution of the size of the offices.

COMMISSIONER JABER: Okay. I don't know if this is the right thing to do or not. I'm just exploring. I'm trying to understand the different cost models. But the situation you have set up for Verizon Florida and how it has applied -- how you apply the cost model to your GTE states, in a very narrow sense is that kind of structure adaptable to what the ALECs are proposing here, that to the degree there are similar inputs among the three ILECs, you know, all the ILECs have property taxes, all the ILECs are going to have similar inputs as it relates to, you know, some UNEs, the UNEs there are -- the cross-connect facilities, for example, that we know that you have to use, can that kind of structure work as it relates to what is being proposed here?

MS. ELLIS: Not really.

COMMISSIONER JABER: Tell me why.

MS. ELLIS: Okay. For example, you mentioned cross-connects. We don't -- we have a lot of those costs on the UNE side as opposed to in the collocation which differs from the way BellSouth does it. Another example is when we developed our cost study, we actually looked at exactly the

activities that we typically provide to, say, engineer a collocation arrangement -- or a collocation request. And that's based on the practices that we follow to do that. We have team meetings between the outside plant engineers and the building engineers and such. And we recover those costs that are specific to, you know, the overall product management in our engineering rate. Whereas, other engineering related costs, for example, the cost to engineer power or engineer facility poles, we actually recover exactly in the element so that when a CLEC comes and purchases elements from us, they're very distinctly defined to how we do business.

COMMISSIONER JABER: I understand.

MS. ELLIS: And I'd also like -- I'm just sort of adding this. This is not to your question. But when you were going through the types of collocation we offer, we also offer microwave in Florida.

COMMISSIONER JABER: Okay. And tell me what that is, please.

MS. ELLIS: The microwave option simply allows a CLEC to place microwave type equipment on the rooftop of our central offices to provide services.

COMMISSIONER JABER: Has that been requested, and do you currently provide it?

MR. BAILEY: Not in Florida.

MS. ELLIS: Not in Florida.

COMMISSIONER JABER: But it is offered?

MR. BAILEY: It is offered. We don't have any demand.

MS. ELLIS: It is offered throughout our footprint, actually.

COMMISSIONER JABER: Thank you. Thank you, Mr. Chairman.

CHAIRMAN BAEZ: Redirect.

MR. McCUAIG: Just brief redirect.

REDIRECT EXAMINATION

BY MR. McCUAIG:

Q Ms. Ellis, could you please have a look at the exhibit marked for identification as Confidential Exhibit 38 that Mr. Watkins handed out?

A (By Ms. Ellis) Okay.

Q The Verizon confidential number, does that number include any cost of capital?

A No.

Q Does it include any depreciation costs?

A No.

Q The number one to the left, the infrastructure number, $15.50, does that number include any cost of capital?

A Yes.

Q Does that number include depreciation costs?

A Yes.

Q And finally, the confidential number, does that number include replacement costs?

A No.

MR. McCUAIG: Thank you. I have no further redirect.

CHAIRMAN BAEZ: Thank you, Mr. McCuaig. The witness is excused, the witnesses. Thank you.

(Witnesses excused.)

MR. McCUAIG: At this time I would move that Confidential Exhibit 45 and Confidential Exhibit 47, as well as Exhibits 46, 48, and 49 be admitted in evidence.

CHAIRMAN BAEZ: Without objection, move them into the record.

(Exhibits 45 through 49 admitted into the record.)

CHAIRMAN BAEZ: And, staff, you have Exhibit 50.

MR. TEITZMAN: Staff would request that Exhibit 50 would be moved into the record.

CHAIRMAN BAEZ: So moved into the record.

(Exhibit 50 admitted into the record.)

MR. WATKINS: Mr. Chairman, Covad --

CHAIRMAN BAEZ: Mr. Watkins, you're number --

MR. WATKINS: -- would move Confidential Number 38 into the record.

MR. McCUAIG: Verizon objects to that request on a number of grounds.

CHAIRMAN BAEZ: Mr. McCuaig, just one second. Let me

see if there's a line forming behind you or not.

MR. CARVER: We don't object because at this point there's been so much discussion of this exhibit that I think the record probably clarifies what the exhibit is and what it isn't. So for that reason, we're not going to object.

CHAIRMAN BAEZ: Fair enough. Okay. Go ahead, Mr. McCuaig. I'm sorry.

MR. McCUAIG: Quite all right. In the first case, the exhibit is misleading in that, as Mr. Turner explained, the numbers that Covad has provided for BellSouth are fused amp numbers, whereas the numbers that they have provided for Verizon and Sprint are used amp numbers. So it's an apples-to-oranges comparison.

In the second instance, the last column on this chart is the result of a calculation, whereas Ms. Ellis explained, Mr. Watkins has taken a number provided by Verizon that does not include cost of capital or depreciation and divided it by a number that does include cost of capital and depreciation. In that sense, he's either made his numerator much too small or he's made his denominator much too large, resulting in a small number where there should be a larger number at the end of the chart.

And finally, the column entitled, "Months to compensation" is misleading for those reasons because it's inaccurate in any case and it's also argument. It's not

evidence. And argument belongs in the briefs rather than in an evidentiary exhibit.

CHAIRMAN BAEZ: Mr. Watkins.

MR. WATKINS: Mr. Chairman, Verizon raises an objection that this document is misleading. The first thing I would point out with regards to this document is every number in this document, except for the far right column, has either been stipulated to or admitted to as accurate. So those numbers are not inaccurate.

What Verizon is objecting to is the characterizations and the debate that we have all had here. That is the purpose of this entire proceeding. Everybody disagrees with everybody else's numbers. In the record, every one of those disagreements has been addressed either in cross-examination, direct by witnesses for every party here.

Mr. Turner addressed the BellSouth fused versus used, and in cross examination of Mr. Turner, Mr. McCuaig went through that with him. So that particular misleading element is thoroughly addressed and explained in the record by both sides. The cost of capital and depreciation was covered here today and also in Mr. McCuaig's cross-examination of Mr. Turner.

In short, the complaint is that Verizon disagrees with some of the characterizations within this exhibit, particularly the one in the far right column. Those types of

disagreements are in the record and constitute precisely the same kind of disagreements that all the parties have with regards to the exhibits and the evidence that have been presented by their opposing colleagues and witnesses.

MR. McCUAIG: May I respond briefly?

CHAIRMAN BAEZ: Sure.

MR. McCUAIG: The difference between the other exhibits in the record and this exhibit that Mr. Watkins proposes to add to the record is that the other exhibits have all been vouched for by witnesses. This exhibit has not been vouched for by any witness. The closest any witness came to vouching for it was Mr. Turner calling it "rough justice," and that was before the cross-examination where he came pretty close to specifically disavowing the exhibit.

Certainly no witnesses come after him has come close to vouching for the veracity -- the exhibit for the veracity of the information presented here. Covad could reproduce this exact exhibit in its brief and that would obviously be fine. It is argument and they can present it however they wish, but it's not an evidentiary exhibit.

CHAIRMAN BAEZ: Mr. McCuaig, I'm going to admit the exhibit in part because I'm comforted by Mr. Carver's statement that enough discussion of the exhibit has gone on, and I think that you yourself have had enough opportunity to clarify. And certainly you pointed out in your argument as to the

discrepancies and certainly whatever apples-to-oranges arguments they are there. I will assure that, to the extent those arguments are persuasive, I think the Commission can give it the weight it deserves, but I am reluctant to disallow admission because there has been so much discussion on it. And for that reason, I'm going to overrule your motion -- your objection.

That would leave Confidential Exhibit 38 admitted into the record. I think that's the balance of the exhibits.

Ms. Keating, do we need to deal with anything -- we've got witnesses coming up now. Why don't we take a ten-minute break, and we can line up your witnesses.

(Exhibit 38 admitted into the record.)

MR. WATKINS: Mr. Chairman.

CHAIRMAN BAEZ: Yes, Mr. Watkins.

MR. WATKINS: Right before we take that, right before the close of my cross-examination of the last two witnesses, I inadvertently began to state the confidential number that's contained in Confidential Exhibit Number 38. I would respectfully move that that portion of the transcript be stricken.

CHAIRMAN BAEZ: So moved and granted.

Do we have anything else? We'll break for ten minutes and be back with the staff witnesses. Thank you.

(Brief recess.)

(Transcript continues in sequence with Volume 6.)

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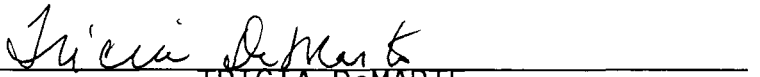
STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, TRICIA DeMARTE, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

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

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

DATED THIS 9th DAY OF FEBRUARY, 2004.



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