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August 30, 2000

Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 000121-TP
Investigation into the Establishment of Operations Support Systems Permanent
Performance Measures for Incumbent Local Exchange Telecommunications
Companies

Dear Ms. Bayo:

Please find enclosed an original and 15 copies of Verizon Florida Inc.'s Post-
Workshop Comments and Proposed Performance Plan for filing in the above matter.
Please be advised that these comments were sent electronically to Commission Staff
on August 25, and Staff has asked us to formally file them with Records and
Reporting. Service has been made as indicated on the Certificate of Service. If there
are any questions regarding this matter, please contact me at 813-483-2617.

Sincerely,

Kimberly Caswell

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Enclosures

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Post Workshop Comments
FPSC BUREAU OF RECORDS
DOCUMENT NUMBER-DATE
10738 AUG 30 8
FPSC-RECORDS/REPORTING

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COMMUNICATIONS SECTION

Plan
DOCUMENT NUMBER-DATE
10739 AUG 30 8
FPSC-RECORDS/REPORTING

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into the Establishment of) Docket No. 000121-TP
Operations Support Systems Permanent) Filed: August 25, 2000
Performance Measures for Incumbent Local)
Exchange Telecommunications Companies)

POST-WORKSHOP COMMENTS OF VERIZON FLORIDA INC.

On August 8, 2000, the Commission Staff held a workshop on certain issues identified in the notice issued on June 14, 2000. Those issues address the establishment of a mechanism to enforce performance measures to be established later for the incumbent local exchange carriers' operations support systems (OSS).

At the workshop, a number of parties, including Verizon Florida Inc. ("Verizon," formerly known as GTE Florida Incorporated) presented the conceptual framework of their preferred enforcement mechanisms. At the conclusion of the workshop, Staff asked the parties to submit supplemental comments focusing on the issues identified for the workshop. In addition, parties were directed to submit specific enforcement mechanisms with their supplemental comments "or soon after."

In accordance with Staff's instructions, these are Verizon's Supplemental Comments on the issues identified for discussion. Verizon's incentive plan itself will soon follow.

1. Does the Commission have the authority to establish, in advance, a generic enforcement mechanism provision which would be inserted in interconnection agreements in the event negotiations on this provision fail?

Verizon believes that Congress intended for parties to address UNE-related issues through voluntary negotiations. In the event that negotiations fail, state commissions

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have authority to intervene by means of the arbitration provisions in section 252 of the Telecommunications Act of 1996.

A generic enforcement mechanism may be established through voluntary agreement of all affected parties. Verizon hopes that such an agreement can be reached in this docket, so that the Commission may avoid difficult legal issues about the scope of its authority.

2. Does the adoption of an enforcement mechanism provision by the Commission constitute the awarding of damages?

Verizon's OSS incentive plan is structured to avoid questions concerning the Commission's legal authority to award damages. This is because Verizon's plan focuses on performance incentives for the ILEC, rather than compensating CLECs for losses. Verizon's plan is designed to eliminate any profit the ILEC might make by providing substandard performance to the CLECs. This plan thus has a solid theoretical and economic foundation, unlike the plans of most of the CLECs—which are geared more toward awarding compensation (or damages) to the CLEC.

Verizon believes the answer to the question posed depends on the specific enforcement mechanism. As the Commission has acknowledged, it has no authority to award damages. Thus, an enforcement mechanism that is tantamount to an assessment of damages is unlawful in Florida, unless the party who would be asked to pay the damages voluntarily accepts the mechanism.

3. What should be the objectives of an enforcement mechanism?

The enforcement mechanism should facilitate competition in local telephone services by establishing a “level” playing field for all competitors – ILECs and CLECs alike. In this regard, the 1996 Telecommunications Act requires ILECs to provide “non-discriminatory” OSS service to the CLECs. It does not require the ILECs’ OSS performance to advance indeterminate goals such as “rapid and sustainable development of a competitive local telecommunication market” or “protection of the public interest” (however that may be defined), as AT&T suggests (8/8/2000 AT&T Performance Incentive Plan (PIP) Version 2.0, presented at the workshop by Cheryl Bursh). Non-discriminatory OSS service provides the CLECs with the capability to compete, but cannot affect the myriad of factors under the CLEC’s control--e.g., pricing, advertising, marketing and willingness to enter all markets--which will determine their speed of entry and success in the marketplace.

The enforcement mechanism should provide adequate economic incentives to the ILEC to provide parity service to the CLEC based on reasonable and justifiable dollar amounts. Verizon proposes that the incentive amounts should be set equal to the average margin (the difference between retail revenues and costs, as derived from the rates established in GTE’s 1996 arbitration with AT&T and MCI, FPSC Order PSC-97-0064-FOF-TP, Jan. 17, 1997) for Florida customers. This amount reflects the actual dollars to be gained or lost from discriminatory service and provides the correct incentive for the ILEC. In

contrast, AT&T, for instance, has elsewhere proposed incentive amounts that are excessive and have no theoretical or common sense justification. This kind of expansion of the enforcement mechanism's objectives beyond non-discriminatory service only dilutes the effectiveness of the incentives and unfairly disadvantages the ILEC in the marketplace.

Finally, if the incentive levels are properly set for individual CLEC performance, then there is no need for additional payments when "non-compliant performance is provided to CLECs on an industry-wide basis," as AT&T advocates. The additional payments are essentially redundant and represent "double-taxation" for the same offense.

4. How should any commission-established enforcement mechanism be structured conceptually?

- a. **Frequency of monitoring** - Verizon supports monthly assessments of OSS performance under the designated statistical and benchmark standards.
- b. **Time Frame to be Evaluated** - The structure and performance of the enforcement mechanism should be reviewed on a periodic basis (at least every six months) to ensure that the goals of the enforcement mechanism are being met in a timely and efficient manner. The enforcement plan should contain explicit sunset provisions.

In addition, there should be a six-month "burn-in" period to allow initial evaluation of the plan after its implementation. This period will be

necessary to determine if all aspects of the plan's structure—including metrics, statistical tests, and incentive dollar amounts—are appropriate and effective in operation. Any incentive payments assessed during this trial period would be placed into an escrow account. After all interested parties have had a chance to review and comment on the plan's structure, changes may be made to the plan. Any escrowed amounts would then be distributed based on the revised plan.

Finally, Verizon must point out that the time for implementation of the plan in the first instance will depend on the nature and complexity of the plan. While Verizon could begin to implement its relatively simple and straightforward plan in mid-year 2001, other types of plans (for instance, those requiring significant programming changes) could take considerably longer.

- c. **Level of disaggregation** - Verizon initially recommends geographical disaggregation at the state level. Once a plan is implemented and a significant amount of data collected, the Company will be better able to evaluate whether lower levels of disaggregation (such as like-to-like comparisons between ILEC and CLEC performance) may be appropriate.
- d. **How should a, b and c be balanced to provide statistical significance for metrics with a small number of observations per reporting period?**

Small samples may result in low test power for reasonable Type I error levels. Verizon supports a minimum sample size of 10 to determine

whether a standard has been met; details regarding sample size requirements are included in Verizon's incentive plan. However, Verizon might support aggregation across small samples (within the same month) if the resulting aggregation does not violate the principle of like-to-like comparisons. Verizon does not support aggregation across months. Where small samples (10 or more) persist, either with aggregation or because there are no suitable aggregation techniques, permutation/exact tests should be used for small sample testing, as detailed in Verizon's plan.

- e. **Automatic penalties for non-compliance?** - If adequate provision is made for ILEC payments under parity resulting from Type I errors (the "multiple-testing" problem), incentives should be made "automatically"—that is, on a self-executing basis. Provisions must also be made for excludable events and payment caps.

5. **For purposes of evaluating ILEC performance in the aggregate, how should the Commission's enforcement mechanism be structured conceptually?**

Verizon supports establishing incentive payments only at the CLEC level--that is, based only on statistical tests for individual CLEC/measure combinations. Then the proper incentive level is based on the average net margin for Florida customers. This represents the actual dollar amounts at risk from discriminatory service.

If these incentives are structured properly and set at appropriate levels, there is no need for an additional enforcement mechanism at an aggregate level. If the

ILEC is not discriminating against individual CLECs, it cannot be discriminating against the industry.

6. How should the dollar value of penalties be determined?

If incentives are deemed necessary to ensure parity service for CLECs, the incentive levels should be based on sound economic principles. In determining the level of service provided to CLECs, a profit-maximizing firm will consider the tradeoff between expected incentive payments and the loss in expected income (net revenues) resulting from reductions in its market share. The incentive levels should be sufficient to induce the ILEC to provide parity service.

7. Should there be a cap on penalty amounts and if so, how should that cap be determined?

Caps are an essential element of any incentive system. Caps generally take on one of two types: (1) absolute caps and (2) procedural caps. Absolute caps represent the dollar amount that the total incentive payments to all CLECs should never exceed. Procedural caps represent a "trigger amount" that, if exceeded, trigger a procedural hearing/investigation to determine if the incentive mechanism is operating properly. The cap should bear a reasonable relationship to the potential loss of income that the ILEC may face. The amount for the absolute cap, in this case, should never exceed the value of the market to the CLECs. If incentive payments exceed this amount then there are a number of plain and undesirable consequences. These consequences include entry by inefficient firms (firms that would not be profitable without the incentive

payments), rent-seeking behavior (intentional sabotage to obtain payment) and, in the worst case, eventual exit of the ILEC.

Procedural caps should be set at a lower level. This is because the cap performs a “parachute” function to protect against unanticipated consequences that inevitably result from an untried incentive system. The caps should reflect that the CLECs will not achieve their “market potential” in the first few months of competition and that this is an untried system that lacks a stable historical performance database. Verizon supports “procedural” caps where incentives incurred above a threshold are placed in escrow pending resolution of competing claims.

8. How and when should consequences be escalated?

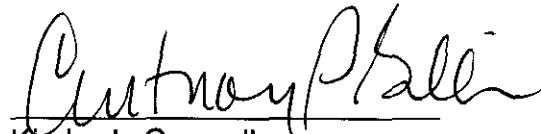
Verizon supports increasing incentives for chronic (repeated across months) violations of parity. Verizon also proposes increasing the incentive payments for more severe misses, when severity is measured by the percentage difference between the ILEC and CLEC performance. AT&T's proposal to measure severity based on the Z-score is flawed because the Z-score, for a constant percentage difference between the means, increases with larger sample sizes. Thus, if the difference between ILEC and CLEC performances remained constant over time, then the Z-score could increase from a finding of no statistical difference to a severe miss solely because the CLEC's number of orders increased. Thus, the Z-score is an unreliable indicator of the “severity” of the miss.

9. How should extraordinary events be handled?

Provisions need to be made for events outside the ILEC's control. This approach should be implemented through a pre-agreed upon list of excludable events developed through a collaborative process among the parties to this docket, building on similar activities in other states. For events not on the list, disagreements would be handled through informal discussions between the ILEC and CLEC, with adjudicated/mediated hearings as a last resort.

Respectfully submitted on August 25, 2000.

By:

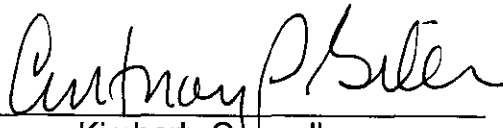


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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of Verizon Florida Inc.'s Post-Workshop Comments and Proposed Performance Plan in Docket No. 000121-TP were sent via U.S. mail on August 30, 2000 to the parties on the attached list.



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