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November 22, 2000

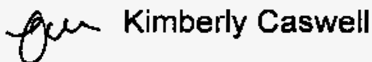
Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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 Performance Assessment Plan Comments for filing in the above matter. 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,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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into the establishment of operations support systems permanent performance measures for incumbent local exchange telecommunications companies	)	Docket No. 000121-TP Filed: November 22, 2000

COMMENTS OF VERIZON FLORIDA INC.

Verizon Florida, Incorporated ("Verizon") files these comments in response to the Florida Public Service Commission ("FPSC") Staff's proposed Operations Support Systems (OSS) Performance Assessment Plan for BellSouth Telecommunications, Inc. ("Bell South"). Verizon understands that the proposed service quality measures and enforcement mechanisms apply exclusively to BellSouth, and that the Commission will consider performance measures and incentive mechanisms separately for each incumbent local exchange carrier ("ILEC"). This approach is consistent with Verizon's earlier observations that every ILEC's systems and circumstances are different, such that a one-size-fits-all plan is inappropriate.

Because the plan at issue applies only to BellSouth, there is no need for Verizon to comment upon it in detail, and Verizon takes no position on implementation of the plan for BellSouth. However, because Verizon would vigorously oppose certain aspects of the plan if they were applied to Verizon, Verizon will offer its views as to why these items should not appear in any Verizon-specific performance plan.

Before turning to a discussion of specific aspects of the BellSouth plan, Verizon again emphasizes that the Commission should resolve the legal issues concerning its authority to adopt an incentive mechanism before it puts such a mechanism in place for any company. Contrary to Staff's apparent view, the Commission's authority to assess penalties for willful violation of its rules and orders under Florida Statutes

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section 364.285 does not encompass the much different kind of authority the agency would need to order a self-executing OSS incentive mechanism. Moving forward with a plan in the absence of resolution of the legal issues is an inefficient use of Commission and company resources. In addition, the outstanding legal issues will become even more complex if an ILEC is forced to implement a plan while legal challenges are ongoing.

Specific Comments

Sections 2.3, 2.5 and 2.6, Measurement Reporting

Staff has proposed that BellSouth make available monthly performance data and reports on the 15th calendar day of the month following the reporting period (Sec. 2.3.). Stiff penalties—$2000 a day—would be assessed for each day the report is late (sec. 2.5). If reports are incomplete or need to be revised, BellSouth will incur a $400-a-day penalty.

For a number of reasons, Verizon could not accept these proposals in its own plan. First, Verizon would request at least 25 calendar days to post the preceding month's data. This more reasonable period was adopted by the FCC in the carrier-to-carrier performance plan it imposed upon Verizon as a condition of the Bell Atlantic/GTE merger. (*Application of GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control*, Memorandum Opinion & Order ("Merger Order ") FCC 00-221, at Att. A, page A-7, para. 13 (June 16, 2000). Verizon believes it would be desirable to have consistent federal and state report release dates based upon the 25-day standard.

Second, requiring incentive payments for late or incorrect reports is unnecessary and counterproductive. In any plan designed for Verizon, there is no basis for

assuming that the Company will avoid disclosing any erroneous calculations in the reports. Moreover, although Verizon does not anticipate any problems, it should not be subject to penalties if it experiences occasional technical problems in generating reports.

Third, it would create perverse incentives to impose penalties on Verizon for voluntarily correcting performance reports to ensure their accuracy.

Section 4.4.4, Application – Root Cause Analysis/Corrective Action Plan

The Staff's plan provides that if a measure fails twice in three consecutive months, BellSouth must perform a "root cause analysis" and file a corrective action plan within 30 days after the end of the second failed month. Verizon would oppose any such mandatory filings in its own plan. If Verizon is missing particular metrics—and having to make associated payments—it will already have a powerful incentive to determine the cause of any ongoing problems and to quickly correct them. Requiring Verizon to file root cause analyses and action plans would be unduly burdensome, impractical and unlikely to further the Staff's intended objective. For instance, the plan seems to assume that the same measure is missed for the same reason in two out of three months, when the cause of the two misses may have been entirely different. Thus, even if there is no evidence of a real, ongoing problem, the company would nevertheless be required to come up with a "corrective" plan simply because of regulatory mandate. This requirement is particularly onerous because the plans would need to be CLEC-specific and metric-specific—thus requiring the ILEC to undertake potentially numerous and different corrective actions, regardless of whether those actions truly address any problems.

If Verizon has repeatedly missed certain measures, thus indicating a systemic problem, Verizon will surely be aware of it and quickly correct it. Having to file detailed reports and plans based on just one or two months data would only divert the Company's limited resources away from detecting and correcting genuine problems.

Verizon could not, in any event, comply with the time frame proposed for filing corrective action plans. As a rule, Verizon's performance results are not available until the 25th calendar day following the reporting period. Under the Staff's guidelines, then, Verizon would have only 5 days to complete and file a corrective action plan. This interval is much too short to permit a proper analysis and careful development of appropriate corrective measures. Allowing insufficient time for this process would increase the possibility of erroneous conclusions that would drive ineffective action plans, an outcome that would not serve the Staff's intended purpose.

Sections 4.5 & 4.6, Methodology and Payments

A. Multiple Tiers

Staff's plan for BellSouth prescribes three tiers of increasingly severe enforcement mechanisms. In a properly designed incentive plan, such multiple tiers are unnecessary and inappropriate. As Verizon explained in its previous Comments, if Tier 1 payments are set properly and account for severity and chronic misses, then additional layers of payments are unnecessary. Such payments only lead to over-investment in OSS infrastructure and ensure that the CLECs receive superior, not equal, service.

The proposed, duplicative payments would not, in any event, benefit the CLECs that are purportedly suffering poor performance, because payments beyond Tier 1 would go to the State Revenue Fund. Revenue generation for the state is not a legitimate objective for a performance assessment plan; in general, Verizon believes that any incentive payments should be made only to the affected parties.

Given the proposed, graduated Tier I payment scheme over a 6-month period, a Tier II enforcement mechanism is redundant and unnecessarily punitive. For example, if BellSouth is paying the Tier 1 penalty amount for an affected item in Ordering in Month 6, it has already paid a total of $100 more for the previous 5 misses above and beyond the $200 paid if a miss each month were independent.

The proposed Tier 3 penalty, "voluntary suspension of marketing and sales of interLATA long distance services," (sec. 4.3.11) is also flawed on both methodological and legal grounds. This condition was adopted from BellSouth's own incentive plan proposal, and can likely be linked to BellSouth's efforts to obtain this Commission's favorable action on its bid to obtain Section 271(c) authority to provide interLATA services in Florida. Verizon, however, is already authorized to provide such services here, and would not volunteer to pay such a premium.

As the Staff seems to recognize, it could not force any ILEC to accept the proposed Tier 3 penalty. Aside from the Commission's lack of legal authority to require *any* penalties in the context of a mandated incentive plan (as discussed in Verizon's earlier Comments), no state commission can lawfully deprive an ILEC of the ability to market or sell interstate services, including interLATA long distance. This is presumably why the Staff has termed the Tier 3 penalty in the BellSouth plan "voluntary". Jurisdiction over interstate services rests with the FCC. Thus, a penalty

contemplating suspension of interLATA marketing could not be imposed upon any ILEC without its express consent.

Moreover, whether the service in question is interstate or intrastate, it would violate due process to deprive a carrier of the ability to market or sell a service based solely on a review of three months of performance metrics results. The carrier would have to be given notice of the potential action and allowed a hearing to present evidence why its authority to market or sell services should not be revoked.

Aside from the legal problems the proposed Tier 3 penalty raises, this provision is methodologically flawed. One important problem is the requirement that ALL failed measures demonstrate parity results for three consecutive months in order to restore long-distance marketing and sales. Given the high probability for Type I errors built into the testing process, this will be difficult to achieve even if the ILEC is providing parity service.

Finally, Verizon requests clarification of the table shown in Exhibit D, Tier 3 Calculation; even though it does not appear that each of the 12 metrics shown were missed in three consecutive months, the example nevertheless shows application of Tier 3 penalties.

B. Error-balancing Approach for Determining the Critical Z-value for Statistical Tests of Parity

To the extent that Staff might consider including the proposed error-balancing methodology in a Verizon-specific incentive plan, the Company has both theoretical and practical objections that arise from its particular circumstances.

First, Verizon believes that the so-called " theoretical" foundation of the methodology is flawed. AT&T attempts to justify this approach by arguing that "error balancing" equates the financial risk of the CLEC and the ILEC. Verizon demonstrated in its Reply Comments that the only time that financial risk is "balanced" with this methodology is when the difference in service levels is so great that a customer will leave the CLEC with certainty--that is, when the probability of the customer leaving the CLEC given that a Type II error (false acceptance of parity) has occurred equals 1.[1] That is, the only time the financial risks are equal is when the CLEC's OSS service is so obviously poor that no customer would choose the CLEC, a situation which is not likely to occur very often. Otherwise, the financial burden is relatively much greater for the ILEC and a properly designed plan based on the error balancing methodology still requires an offset for incentive payments made for random variation.

Second, because the error balancing approach leads to a fluctuating standard, it will be harder to monitor and manage the OSS system and ensure statistical "parity" service. A system based on a standard that changes across metrics and over time will be relatively more difficult for auditors to understand and

[1] If financial risks are equated, then the expected value of the ILEC's payments due to Type I error should equal the expected incremental revenue lost due to Type II error. The expected value of Type I payments is the product of three terms: 1) the probability of a Type I error, 2) the probability of making an incentive payment given a Type I error has occurred, and 3) the dollar amount of the incentive payment. The expected value of Type II losses is also the product of three terms: 1) the probability of a Type II error, 2) the probability of losing the customer given that a Type II error has occurred and 3) the incremental revenue retained by the ILEC for poor service. The first and third terms in both of the calculations cancel (by design), implying that the financial risk is equated if, and only if, the probability of making an incentive payment (given a Type I error has occurred) equals the probability of losing the customer (given a Type II error has occurred). Since the ILEC will always pay when a Type I error occurs, then financial risk can only be equated if the probability of losing the customer is also equal to 1. We would expect this latter probability to be small for small differences in service performance, then to increase as the disparity becomes greater. However, financial risk would only be equated when the disparity is large enough to dissuade the customer from choosing the CLEC; and under these circumstances the probability of a Type II error would be small.

regulators to evaluate—even aside from the difficulties Verizon would face in implementing such a complicated system.

The critical Z value resulting from the error balancing approach is very sensitive to the number of ILEC and CLEC orders. When sample sizes are small, the resulting critical value will be closer to zero, and when sample sizes are large, the critical Z value will also be larger (in absolute terms). Thus, the standard (critical Z value) will fluctuate considerably from month-to-month even for the same CLEC/metric combination. That is, one month the significance level for the "balanced" Z may be 15% and then the following month, it might be 3%. The critical Z-value will also differ, for the same metric, for different CLECs. In other words, two CLECs with differing numbers of orders could end up with completely different standards (e.g, critical Z-scores) for the same metric. In addition, the critical Z-value will not be known until all of the data are in, *i.e.*, at the end of the month, when it will be too late to address any performance issues. In contrast, a fixed standard, *e.g.*, Z = 1.65, is simpler to operationalize to ensure parity performance.[2]

Third, choosing a significance level based on balancing errors is likely to result in a higher number of Type I errors than is typically accepted in standard hypothesis testing. The large number of Type I errors coupled with the "large" incentive payments (regardless of the scale of the CLEC) and the numerous sub-measures subject to incentives, results in the financial risk falling mostly on the ILEC, a plainly inequitable outcome.

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[2] For example, the fixed standard implies that only 5% of the CLEC customers could receive service worse than the ILEC mean + 1.65 standard deviations. Also, that 50% should receive service at least as "fast" at the ILEC mean. The normal distribution could then be used to set performance goals for the operations support personnel, *e.g*, 50% customers served within 4 hours, 75% within 6 hours, no more than 5% in more than 8 hours. In contrast, this is not as straightforward with a standard that fluctuates from month to month and by CLEC and metric.

Fourth, the proposed methodology has been jointly developed over a considerable period of time by Ernst & Young and AT&T. Verizon has not been a party to the development process, instead pursuing its own approach to developing the statistical foundations for its own incentive plan. Consequently, even if the Staff was to impose this methodology on Verizon, the Company would require additional time for development and testing of the algorithm.

C. Parity Gap

Verizon does not support the use of the 'parity gap' to measure non-compliance, as it relies on the value of the Z-score to measure the size of the departure from parity. As Verizon stated in its Reply Comments, the value of the Z-score is affected by the CLEC and ILEC sample sizes, and the Z-value for a given difference between the means will be larger with larger samples. This result would imply, incorrectly, that the "miss" for the larger sample was more severe, when it was not. Thus, Z-scores are an imperfect measure of the magnitude of the departure from parity.

Section 4.8.1 Enforcement Mechanism Caps

Staff proposes capping BellSouth's liability for Tier 1 and Tier 2 payments at 39% of net revenues for the state. This amount is unjustified and plainly excessive. As Verizon explained in its previous Comments, a properly designed incentive plan should set an absolute cap at the amount that will neither incent non-compliant service, nor result in over-deterrence (which will drive inefficient investment and thwart introduction of new products and services). The 39% figure in BellSouth's plan fails to strike this balance and, in fact, Staff offers no explanation as to how it was chosen. This

excessively high procedural cap, especially when combined with other methodological flaws discussed here, will provide incentives far greater than those needed to achieve compliant performance. Any plan designed for Verizon should have absolute, state-specific caps equal to those specified by the FCC in the Carrier-to-Carrier Performance plan imposed upon Verizon as a condition of the Bell Atlantic/GTE merger. (*See* Merger Order at Attachment A-6.)

Section 4.8.3 Escrow of Payments

This proposed plan provides that if payments for Tier 1 and 2 violations exceed the above-described 39% cap, then BellSouth must put the amount in excess of the cap in an escrow account. The plan, however, includes no means of retrieving these monies from escrow. Verizon urges the Staff to clarify its intention in this regard.

Section 5.0 Market Penetration Adjustment

According to the Staff's plan for BellSouth, market penetration adjustments are necessary to promote competition for advanced and nascent services. Specifically, the Staff's proposal would compel BellSouth to make additional "voluntary" payments to the State General Revenue where CLECs order low volumes of new and advanced services (*i.e.*, between 10 and 100 observations for the designated measures for a three-month period) (sec. 5.1). This is a seriously misguided approach that rests on the mistaken assumption that a competitive environment for a particular service automatically confers market share for that service. This is not true. As Verizon explained in its Reply Comments, CLEC market share is primarily affected not by the ILEC's conduct, but by factors exclusively within the control of the CLEC itself–for

instance, the CLEC's marketing skills, customer service, and the like. Just because a CLEC is relatively small does not mean the ILEC is engaging in discriminatory conduct against that CLEC. Because a "ratcheting mechanism" for incentive payments based on CLEC market shares is unwarranted, Verizon could not accept any such mechanism in its own plan.

Exhibit A – Florida Service Quality Measures

Exhibit A includes a section titled "Additional Measures Under Consideration" listing 17 such measures. As Verizon pointed out in its earlier Comments, a plan for enforcing particular measures cannot logically be developed until those measures are finalized. The final list of measures in the incentive plan must be comprehensive in scope, yet must not include redundant or highly correlated measures that would result in multiple incentive payments caused by a single event. A plan can only be evaluated after the list of measures is complete.

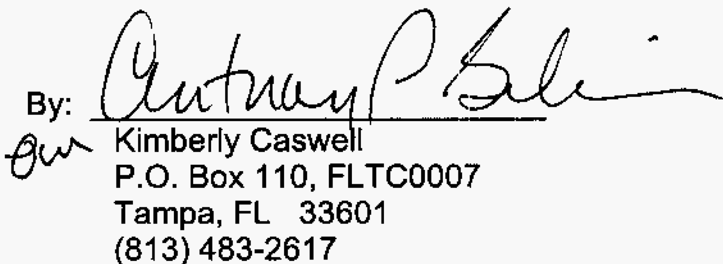
Exhibit C - Analogs and Benchmarks

Staff proposes a "parity with retail" standard for BellSouth's pre-ordering response time metrics. In any Verizon plan, the standards for these metrics need to be adjusted to recognize that the CLEC must pass through an interface to reach Verizon's OSS system. For network security reasons, third parties cannot be permitted direct access to ILEC systems. The standard will thus need to be revised to "parity + n seconds," where n is the time needed to pass through the interface.

*   *   *

While Verizon offers no opinion on the suitability of the Staff's proposed plan for BellSouth, Verizon would urge the Staff to consider these Comments in developing any plan for Verizon. As Staff has acknowledged, each company faces different circumstances, such that a single, uniform plan is not the best approach. Verizon has here identified some key areas where the proposed BellSouth plan is not appropriate for Verizon. In devising a plan for Verizon, the Staff should be guided primarily by the proposed incentive plan Verizon submitted in these workshop proceedings.

Respectfully submitted on November 22, 2000.



By:

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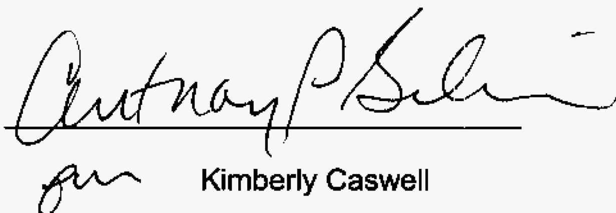
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of Verizon Florida Inc.'s Performance Assessment Plan comments in Docket No. 000121-TP were sent via overnight mail (*) on November 21, 2000 and U.S. mail on November 22, 2000 to the parties on the attached list.



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