

BEFORE THE PUBLIC SERVICE COMMISSION OF FLORIDA

**In re: Investigation into Pricing of
Unbundled Network Elements**

**Docket No.
990649B-TP**

REBUTTAL TESTIMONY OF

WARREN R. FISCHER

QSI CONSULTING, INC.

**(Addressing Geographic Deaveraging, Annual Cost Factors and
Common Costs)**

On behalf of

**AT&T Communications of the Southern States, Inc.
MCI metro Access Transmission Services, LLC & MCI WorldCom
Communications, Inc.
Florida Digital Network, Inc.
(collectively called the "ALEC Coalition")**

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TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	QUALIFICATIONS.....	1
B.	PURPOSE AND SCOPE OF TESTIMONY	2
C.	SUMMARY OF RECOMMENDATIONS	3
II.	ISSUE 2 (A): WHAT IS THE APPROPRIATE METHODOLOGY TO DEAVERAGE UNES AND WHAT IS THE APPROPRIATE RATE STRUCTURE FOR DEAVERAGED UNES?.....	5
A.	DEAVERAGING RECOMMENDATIONS	5
B.	APPLYING SPRINT DEAVERAGING METHODOLOGY	7
C.	RATIONALE FOR EXTENSIVE DEAVERAGING	11
III.	ISSUE 7: WHAT ARE THE APPROPRIATE ASSUMPTIONS AND INPUTS FOR THE FOLLOWING ITEMS TO BE USED IN THE FORWARD- LOOKING RECURRING UNE COST STUDIES?	15
A.	(B): DEPRECIATION AND (C): COST OF CAPITAL	15
B.	(T): RECURRING EXPENSES DERIVED THROUGH MAINTENANCE AND SUPPORT FACTORS.....	16
C.	(U): ALLOCATION OF COMMON COSTS	23
IV.	CONCLUSION AND RECOMMENDATIONS.....	28

EXHIBIT LIST

EXHIBIT WRF - 1:	BACKGROUND OF WARREN R. FISCHER
PROPRIETARY EXHIBIT WRF –2:	2-WIRE LOOP DEAVERAGING USING SPRINT METHODOLOGY AND $\pm 20\%$ DEVIATION STANDARD
PROPRIETARY EXHIBIT WRF – 3:	2-WIRE LOOP DEAVERAGING USING SPRINT METHODOLOGY CONDENSED TO THREE RATE ZONES
PROPRIETARY EXHIBIT WRF – 4:	DS-1 LOOP DEAVERAGING USING SPRINT METHODOLOGY AND $\pm 20\%$ DEVIATION STANDARD
PROPRIETARY EXHIBIT WRF – 5:	DS-1 LOOP DEAVERAGING USING SPRINT METHODOLOGY CONDENSED TO THREE RATE ZONES
EXHIBIT WRF-6:	EXCERPT FROM BELL ATLANTIC'S FORM S- 4 FILED WITH THE SECURITIES AND EXCHANGE COMMISSION TO ISSUE SHARES IN CONJUNCTION WITH THE PROPOSED MERGER WITH GTE

1 **I. INTRODUCTION**

2 **A. Qualifications**

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is Warren R. Fischer. My business address is 3333 East Bayaud
5 Avenue, Suite 820, Denver, Colorado 80209.

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

7 A. I am employed by Quantitative Solutions, Inc. ("QSI") as a Senior Consultant.
8 As such, I am responsible for providing expert testimony and analytical
9 support on a number of subject matters involving implementation of the pro-
10 competitive provisions of the Telecommunications Act of 1996 ("the Act").

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

12 A. I have a Bachelor of Science degree in Business Administration with a
13 concentration in Accounting from the University of Colorado in Boulder,
14 Colorado. I am licensed as a Certified Public Accountant in Colorado and
15 California.

16 **Q. WHAT IS YOUR EMPLOYMENT BACKGROUND?**

17 A. After graduating from the University of Colorado, I worked for several years
18 as an accountant with Deloitte & Touche conducting financial audits.
19 Thereafter, I worked for two other major corporations as a financial analyst. I
20 then joined AT&T Wireless Services in 1995 as a financial analyst where I

1 managed the preparation of annual revenue forecasts for the cellular division.
2 In 1996, I transferred to AT&T Corporation where I became a financial
3 manager and a subject matter expert on pricing and costing issues involving
4 local exchange and exchange access services. In 2000, I joined QSI as a
5 Senior Consultant.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR OTHER PUBLIC**
7 **UTILITY COMMISSIONS?**

8 A. Yes. I have filed testimony at the FCC and in several state regulatory
9 proceedings on subjects such as alternative local exchange carrier ("ALEC")
10 cost issues, revenue requirements, interconnection costs, access rate
11 reform, Universal Service Fund reform, and Section 272 provisions of the
12 Act. I have attached Exhibit WRF - 1 for a more detailed explanation of my
13 education, experience and previous testimony.

14 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

15 A. I am testifying on behalf of AT&T Communications of the Southern States,
16 Inc., MCImetro Access Transmission Services, LLC & MCI WorldCom
17 Technologies, Inc. and Florida Digital Network ("ALEC Coalition").

18 **B. Purpose and Scope of Testimony**

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. The purpose of my testimony is to address the following issues from
21 Appendix A in the Florida Public Service Commission's (Commission) Order

1 Establishing Procedure for this Phase III, Order No. PSC-01-1592-PCO-TP
2 issued August 2, 2001, as they pertain to Verizon Florida, Inc. (“Verizon –
3 FL”):

4 Issue 2 (a): What is the appropriate methodology to deaverage
5 unbundled network elements (“UNEs”) and what is the
6 appropriate rate structure for deaveraged UNEs?

7
8 Issue 7: What are the appropriate assumptions and inputs for
9 the following items to be used in the forward-looking
10 recurring UNE cost studies?

- 11 (b): depreciation;
- 12 (c): cost of capital;
- 13 (t): expenses; and
- 14 (u): common costs.

15
16 The other relevant assumptions inputs under Issue 7 are addressed by the
17 rebuttal testimony of ALEC Coalition witness, Dr. August Ankum.

18 **C. Summary of Recommendations**

19 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

20 **A.** I recommend that the Commission do the following:

- 21 1. Require Verizon – FL to geographically deaverage its UNE loop rates
22 at the wire center level using a defined measure of cost variation that

1 results in the creation of zones based on cost differences, not
2 protectionist policies, and which will promote competition. I believe
3 applying the Sprint rate banding methodology to Verizon's unbundled
4 loop costs will allow the Commission to objectively determine the
5 required number of deaveraged rate zones. Further, the Commission
6 must review the end results of any deaveraging methodology, just as
7 it must review the rates themselves, to ensure that competition is not
8 impeded by the rate structure.

9 2. Reject Verizon – FL's use of a 12.95% cost of capital and financial
10 reporting lives for depreciation. Instead, the Commission should
11 require Verizon – FL to re-run its cost studies with the cost of capital
12 and depreciation lives recommended by Dr. Ankum.

13 3. Reject Verizon – FL's use of C. A. Turner indices to inflate investment
14 and its use of Integrated Cost Model ("ICM") investment in expense-
15 to-investment calculations.

16 4. For common cost recovery, the Commission should (1) require
17 Verizon to properly account for its realized and expected merger
18 savings and to determine a common cost factor that is consistent with
19 Verizon being one of the largest ILECs in the country (2) use the
20 common cost factor based upon total regulated revenue with
21 consideration given to a smaller allocation of common costs to UNE
22 loops, (3) require Verizon – FL to apply the common cost factor to
23 deaveraged rates as a percentage, and (4) require Verizon – FL to

1 remove lobbying, legal, and regulatory costs from its common cost
2 factor that are adverse to ALEC interests.

3 **II. ISSUE 2 (a): WHAT IS THE APPROPRIATE**
4 **METHODOLOGY TO DEAVERAGE UNES AND WHAT IS**
5 **THE APPROPRIATE RATE STRUCTURE FOR**
6 **DEAVERAGED UNES?**

7 **A. Deaveraging Recommendations**

8 **Q. WHAT ARE YOUR OVERALL RECOMMENDATIONS REGARDING**
9 **GEOGRAPHIC DEAVERAGING FOR UNES IN THIS PROCEEDING?**

10 **A.** At a minimum, the Commission should require geographic deaveraging of
11 UNE loop rates similar to what it adopted in the BellSouth phase of this
12 proceeding (Docket No. 990649-TP, Order No. PSC-01-1181-FOF-TP,
13 issued May 25, 2001, pages 40-41. *May 25, 2001 UNE Order*). This is
14 essential because the loop is the primary bottleneck facility required by
15 ALECs for competitive entry, and it is subject to significant cost differences
16 based on customer density and distance. In implementing this policy, I
17 recommend that the Commission:

- 18 1. Reject the statewide average rate proposal and fears of rate arbitrage
19 promulgated by Verizon – FL witness, Dennis Trimble.
- 20 2. Adopt the geographic deaveraging methodology described in Sprint –

1 Florida, Inc. ("Sprint") witness Michael Hunsucker's direct testimony
2 for use with Verizon - FL. The Sprint methodology applies an
3 objective, measurable standard of cost variation to determining the
4 required number of rate zones. This methodology limits the extent to
5 which costs for a loop provisioned within a given wire center can
6 exceed (or fall below) the average cost of the rate group within which
7 the wire center is placed. In short, the Sprint methodology ensures
8 that no wire center-level loop cost will exceed (or fall short of) the
9 average loop rate within a rate group by more than 20%.

- 10 3. Adopt a deaveraging methodology that does not restrict competitive
11 activity.

12 **Q. WHY SHOULD THE COMMISSION REJECT VERIZON - FL'S PROPOSED**
13 **STATEWIDE AVERAGE UNE RATE PROPOSAL?**

- 14 A. Verizon - FL's proposal to price UNEs at a statewide average rate is rooted in
15 its desire to have retail rate deaveraging implemented before UNE
16 deaveraging is implemented (see Direct Testimony of Dennis Trimble, page
17 9). In fact, Verizon - FL's claim that the Commission is under no obligation
18 to deaverage Verizon - FL's UNE rates at this time is totally without merit
19 (Trimble Direct, pages 17-18). The Commission has already acknowledged
20 that it is required to deaverage UNE rates in at least three geographic areas
21 according to 47 C.F.R. §51.507(f) of the FCC's rules on general rate design
22 requirements for the pricing of interconnection and UNEs (See *May 25, 2001*
23 *UNE Order*, page 32-33). Therefore, Verizon - FL's request should be

1 rejected out of hand.

2 **B. Applying Sprint Deaveraging Methodology**

3 **Q. WHY DO YOU ADVOCATE THAT THE COMMISSION USE SPRINT'S**
4 **RATE BAND METHODOLOGY FOR UNE RATE DEAVERAGING?**

5 A. As the Commission has previously noted in the BellSouth phase of this
6 proceeding, the Sprint rate banding methodology is an objective cost-based
7 methodology that does not rely upon existing retail rate zones. In addition to
8 complying with the FCC's deaveraging requirements of 47 C.F.R. §51.507,
9 the Sprint rate-banding methodology gives the Commission the flexibility to
10 adjust the number of zones created based upon the percentage of deviation
11 it sets as a benchmark to compare individual wire center costs to. The ALEC
12 Coalition believes that the Sprint proposal should be applied to Verizon – FL
13 rates and that the methodology as applied must not restrict competitive
14 activity.

15 **Q. WHAT CRITERIA DID SPRINT EMPLOY TO CREATE PRICE ZONES FOR**
16 **ITS UNES?**

17 A. Sprint calculated the monthly recurring cost for each UNE it proposes to
18 deaverage at the wire center level and then grouped these deaveraged costs
19 into rate bands (price zones) of similar costs. The lower and upper boundary
20 of each rate band was set at –20% and +20% (“± 20%”), respectively, of the
21 average cost of the units in that proposed rate band. If a wire center
22 exceeded these boundaries, it was redistributed into the appropriate rate

1 band. The benefit of this process is that it allows cost-zones to be created
2 solely upon underlying costs characteristics, and not due to some artificial
3 grouping of wire centers.

4 **Q. HAVE YOU APPLIED THE SPRINT RATE BANDING METHODOLOGY TO**
5 **VERIZON – FL’S UNE COSTS?**

6 A. I have applied Sprint's methodology to Verizon – FL's 2-wire and DS1 loop
7 costs, before any input adjustments are made to lower UNE costs through
8 Verizon – FL's ICM, to demonstrate the impact of applying this methodology
9 to the deaveraged UNE prices proposed by Verizon – FL. The UNE rate
10 bands were created using Sprint's recommended 20% range of deviation
11 resulting in eight rate bands or zones for a 2-wire loop and four zones for a
12 DS1 loop. The results for each are reflected in the following exhibits.
13 **Proprietary Exhibit WRF – 2** contains the detailed output from the Sprint
14 deaveraging model for the 2-wire loop and **proprietary Exhibit WRF – 4**
15 contains the detailed output for the DS1 loop.

16 **Q. HAS THIS COMMISSION PREVIOUSLY MADE A DETERMINATION ON**
17 **THE NUMBER OF RATE ZONES THAT ARE APPROPRIATE?**

18 A. The Commission did make a determination that three rate zones were the
19 most reasonable choice for BellSouth in the *May 25, 2001 UNE Order*. It
20 made this determination based upon the belief that too many zones would be
21 administratively burdensome and would not be necessary to reflect the level
22 of variation in BellSouth's costs. Consistent with this determination, I have

1 included alternative rate band calculations that collapse the zones calculated
2 in **proprietary Exhibits WRF-2 and WRF-4** to three for both 2-wire and DS-1
3 loops. These three-zone calculations are contained in **proprietary Exhibits**
4 **WRF-3 and WRF-5.**

5 **Q. DO YOU BELIEVE THAT THE COMMISSION SHOULD APPROVE MORE**
6 **THAN THREE ZONES FOR VERIZON – FL?**

7 A. Yes, I do if cost differences warrant it. In creating 47 C.F.R. §51.507(f), the
8 FCC noted the following:

9 ... A state may establish more than three zones where cost
10 differences in geographic regions are such that if finds that
11 additional zones are needed to adequately reflect the costs of
12 interconnection and access to unbundled elements. (*Local*
13 *Competition Order*, FCC 96-325, ¶765)

14
15 Clearly, the FCC's overriding concern is that the number of rate zones
16 adequately reflect the differences in provisioning UNEs. The administrative
17 cost to implement more than three rate zones should be minimal since the
18 work required is mostly one-time charges to make programming changes in
19 the ILEC's underlying rate tables within its billing system. Therefore, I do not
20 believe the administrative costs to implement more than three rate zones
21 would be burdensome in this instance.

22 The other issue the Commission referred to in its preference for three rate

1 zones was whether more zones are required to reflect the level of variation in
2 BellSouth's costs. If one applies this same evaluation criterion to Verizon –
3 FL's 2-wire loop cost by zone in Exhibit DBT-3 to Mr. Trimble's direct
4 testimony, it is readily apparent that more than three rate zones are required.

5 **Q. PLEASE EXPLAIN WHY MORE THAN THREE ZONES ARE REQUIRED**
6 **FOR VERIZON-FL'S 2-WIRE UNE LOOP.**

7 A. Page 1 of Exhibit DBT-3 illustrates the results of Verizon – FL's three-zone
8 deaveraging proposal for a 2-wire loop. Zone 1 is based upon an average
9 price of \$18.94 with the statewide average rate of \$22.94 as the ceiling.
10 Consequently, approximately 67% of Verizon – FL's lines are priced below
11 the statewide average rate. Zone 2 uses the statewide average rate of
12 \$22.94 as the floor and a rate 200% above the statewide average as the
13 ceiling. Zone 3 contains wire centers with costs in excess of 200% of the
14 statewide average. A 200% cost variation standard results in UNE rates that
15 are overly averaged.

16 **Q. WHAT ARE THE RESULTS OF APPLYING THE SPRINT RATE BANDING**
17 **METHODOLOGY TO VERIZON'S WIRE CENTER COSTS?**

18 A. The Sprint methodology as applied to Verizon's wire center costs is
19 illustrated in **proprietary WRF-Exhibit – 2**. Approximately 82% of total lines
20 would be priced below the statewide average cost of \$22.94 before common
21 costs are applied, but these lines would be segregated into three zones
22 compared to Verizon's Zone 1. My proposed Zones 1 (\$8.93) and 2 (\$16.44)

1 would price approximately 22% of Verizon's lines below its Zone 1 rate of
2 \$18.94. The remaining 59% of lines priced below the statewide average rate
3 of \$22.94 would be placed in Zone 3 at a price of \$21.42. Even using the
4 three-zone version of 2-wire loop deaveraging in **proprietary Exhibit WRF-**
5 **3**, the results are similar in that 82% of total lines are below the \$22.94
6 statewide average cost and are segregated into two zones rather than the
7 one zone Verizon – FL proposes. While the Commission may not want to
8 implement eight rate zones for policy reasons, certainly the range of cost
9 differences between wire centers calls for more than three rate zones.

10 **C. Rationale For Extensive Deaveraging**

11 **Q. IS THERE A “RULE-OF-THUMB” THAT THE COMMISSION SHOULD USE**
12 **WHEN DECIDING WHEN AND HOW TO ESTABLISH DEAVERAGED**
13 **RATES?**

14 A. Yes. The Commission should keep in mind that economic efficiency will be
15 best served when the rates charged for gaining access to a particular UNE
16 most closely match the costs associated with making the particular UNE
17 available. The more the underlying costs supporting a given rate are
18 averaged across a larger geographic area or across individual facilities (i.e.,
19 loops in different geographic locations) with disparate underlying costs, the
20 more likely the cost differences between individual facilities (and the UNEs
21 they support) will be “hidden.” In other words, the cost differences will not be
22 evident within the rate, and proper market incentives will be distorted. As a
23 general rule, the Commission should favor more extensive geographic

1 deaveraging rather than less geographic deaveraging. A greater degree of
2 geographic deaveraging will enhance economic efficiency and the
3 development of competition.

4 **Q. IS ECONOMIC EFFICIENCY BETTER SERVED WITH GREATER**
5 **DEAVERAGING?**

6 A. Yes, it will. Society's resources are more efficiently allocated when prices
7 are set to recover only the underlying incremental costs incurred in providing
8 the service. Prices set in this fashion provide information and incentives to
9 buyers and sellers that allow them to make proper "build versus buy" and
10 other decisions concerning consumption and production. Where prices are
11 set to recover costs associated with providing an unbundled element and
12 facilities already exist that can be used to provide service to a customer, a
13 facilities buyer can make a reasonable determination whether it would be
14 more efficient (i.e. cheaper) to buy that network element for use in serving
15 the customer or to build a facility to serve that customer. In this way, the
16 ALEC is provided the information necessary to make a rational decision as to
17 whether it should build or buy the network element. As a result of making a
18 decision in its own best economic interest, the ALEC is also making a
19 decision in society's best interest (i.e., the ALEC is foregoing the deployment
20 of societal resources that would be unnecessarily deployed given the
21 availability of Verizon - FL's existing facility).

22 **Q. WOULD HIGH-COST CUSTOMERS BEING SUBSIDIZED BY LOW-COST**
23 **CUSTOMERS RESULT IN LESS COMPETITION AS A WHOLE?**

1 A. Yes. There are substantial fixed costs associated with beginning a
2 competitive telecommunications enterprise. In addition, competitors have
3 limited resources available, after incurring these substantial upfront costs, to
4 be used to attract customers. Carriers can only hope to compete with an
5 incumbent in the long term by generating economies of scale and scope that
6 bring its average, per-unit-cost of providing service down to a level
7 comparable with the incumbent's (which already realizes economies of scale
8 and scope associated with serving almost 100% of the customers in its
9 particular service territory). Hence, when rates for essential network
10 elements in low-cost areas are priced higher than they should be because of
11 overly averaged rates, the customers which competitors are most likely to
12 attract initially for purposes of gaining economies of scale and scope
13 (because they can be served with the least amount of additional marginal
14 outlay) are sheltered from competition by the fact that the costs of serving
15 those customers are higher than they should be. As such, in areas with
16 overly averaged rates, it is more difficult for ALECs to establish a "foothold"
17 that can be used to gain the economies of scale and scope necessary to
18 extend their competitive services.

19 **Q. ARE THERE OTHER PROBLEMS THAT OCCUR WHEN RATES FOR**
20 **UNBUNDLED NETWORK ELEMENTS ARE SET AT AN OVERLY**
21 **AVERAGED LEVEL?**

22 A. Yes. Competitors will be charged rates for UNEs and UNE combinations that
23 are largely unrelated to the costs incurred by the ILEC to provide them.

1 Therefore, competitors may find themselves in a position in which
2 incumbents have the ability to significantly undercut them. Verizon - FL, for
3 example, could reduce its retail prices in high-density, low-cost areas to
4 levels that are less than the average rates that competitors pay for UNEs
5 required to provide their competing services. Verizon - FL, in such an
6 instance, may not necessarily be charging prices below its own costs, but
7 Verizon - FL would be charging retail prices below the overly averaged rate
8 levels its competitors must pay to compete. This is exactly the situation that
9 Congress was attempting to avoid when it established that rates for access to
10 UNEs must be set in a nondiscriminatory and cost-based fashion (see
11 Section 251(c)(3) of the Telecommunications Act of 1996 (“the Act”)).

12 A deaveraging methodology that results in a minimal number of wire centers
13 and access lines in zones where the lowest rates are available does not
14 promote competition. **Proprietary exhibit WRF-3** illustrates the Sprint
15 methodology applied to Verizon – FL’s UNE costs before they are modified
16 for input changes, and it assumes just three rate zones are used. (The
17 ALEC Coalition recommends more than three zones). In this example, there
18 would be 15 Zone 1 wire centers, serving 22% of Verizon’s access lines.
19 Depending on the level of the rates, such a distribution may not be sufficient
20 to promote competition to a desirable level. Therefore, it is important that the
21 Commission make a second-tier end-result evaluation for any methodology it
22 approves to ensure that the competitive goals of the Act will be carried out
23 and that the methodology adopted does not have arbitrary results.

1 **III. ISSUE 7: WHAT ARE THE APPROPRIATE ASSUMPTIONS**
2 **AND INPUTS FOR THE FOLLOWING ITEMS TO BE USED IN**
3 **THE FORWARD-LOOKING RECURRING UNE COST**
4 **STUDIES?**

5 **A. (b): Depreciation and (c): Cost of Capital**

6 **Q. DO YOU ADDRESS VERIZON'S PROPOSED DEPRECIATION LIVES AND**
7 **COST OF CAPITAL IN DETAIL WITHIN YOUR TESTIMONY?**

8 A. No, I do not. Dr. Ankum discusses the flaws in Verizon - FL's proposed
9 depreciation rates and cost of capital. I rely upon Dr. Ankum's
10 recommendations to perform sensitivity analyses within Verizon – FL's ICM
11 model.

12 **Q. WHAT IS YOUR OVERALL ASSESSMENT OF VERIZON-FL'S**
13 **PROPOSED CAPITAL COST FACTORS?**

14 A. I believe that Verizon – FL's capital cost factors are overstated for the
15 following reasons:

- 16 • Verizon – FL uses a weighted average cost of capital of 12.95% (see
17 Direct Testimony of Dr. James H. Vander Weide, page 4), which
18 exceeds the ceiling of 10.24% recommended by ALEC Coalition
19 witness Dr. August Ankum in this proceeding (see Rebuttal Testimony
20 of Dr. August Ankum).

1 • Verizon – FL uses the accelerated depreciation lives employed in its
2 financial reporting to shareholders as opposed to Dr. Ankum's
3 recommendation that the FCC prescribed lives or the lives approved
4 by this Commission in the BellSouth phase of this proceeding (see
5 Direct Testimony of Allen E. Sovereign, pages 2-9) be used (see
6 Rebuttal Testimony of Dr. August Ankum).

7
8 If the Commission were to implement Dr. Ankum's recommendations, the
9 UNE recurring costs would be reduced significantly. For example, the 2-wire
10 UNE loop rate would decline approximately \$4 per month from a statewide
11 average rate of \$22.94 to \$18.98, a 17% decline. Therefore, the Commission
12 should require Verizon – FL to rerun its ICM and external cost models with
13 the inputs recommended by Dr. Ankum.

14 **B. (t): Recurring Expenses Derived Through Maintenance and**
15 **Support Factors**

16 **Q. WHAT ARE VERIZON – FL'S MAINTENANCE AND SUPPORT FACTORS**
17 **USED FOR?**

18 A. Verizon – FL calculates a series of maintenance and support factors to apply
19 against the investment modeled within its ICM which then produces the annual
20 costs required to support that investment. These annual costs are then divided
21 by twelve to produce monthly recurring maintenance and support costs for each
22 UNE.

1 **Q. HOW ARE MAINTENANCE AND SUPPORT FACTORS TYPICALLY**
2 **CALCULATED?**

3 A. Maintenance and support factors are a typically calculated by dividing expenses
4 incurred in maintaining and supporting the network and related operations by the
5 investment in the network and related operations that generates those expenses.
6 The resulting ratio represents the relationship between expenses and
7 investment that can be applied against future investment to estimate future
8 expenses required to support that investment.

9 **Q, HAS VERIZON OVERSTATED THE MAINTENANCE AND SUPPORT**
10 **FACTORS USED IN DETERMINING RECURRING UNE COSTS IN THIS**
11 **PROCEEDING?**

12 A. Yes, it has. An expense factor is nothing more than a fraction, and a fraction can
13 be overstated if the numerator is greater than it should be and/or if the
14 denominator is less than it should be. Verizon- FL has overstated the fractions
15 used to estimate annual recurring TELRIC expenses in at least three important
16 ways.

17 First, it overstates the operating expenses used to calculate the numerator by not
18 using a bottoms-up approach to calculate the forward-looking expense required
19 to operate and support a network built from scratch. Instead, Verizon – FL relies
20 upon a tops-down methodology which starts with book expenses and then
21 incorporates a series of adjustments for accounting–based normalization entries,
22 removal of certain non-forward looking costs such as analog switching, retail

1 avoided costs and costs recovered through other studies such as NRCs, Billing
2 and Collection, etc. as outlined in its ICM Expense Module Methodology.

3 Second, it overstates the investment values used to calculate the capital carrying
4 costs of support assets. These inflated capital carrying costs are then combined
5 with other operating expenses to form the numerator portion of the expense-to-
6 investment ratio described above.

7 Third, Verizon – FL inappropriately reduces the denominator, investment, of the
8 above factor by replacing the investment used to generate the existing level of
9 expenses with modeled investment out of its ICM.

10 **Q. PLEASE EXPLAIN FURTHER WHY VERIZON – FL HAS NOT MADE**
11 **OPERATING EXPENSES IN THE NUMERATOR OF ITS EXPENSE-TO-**
12 **INVESTMENT RATIOS FORWARD-LOOKING.**

13 A. The proper way to derive forward-looking expenses would be through a bottoms-
14 up determination of the expenses needed to operate and support a forward-
15 looking network. This would take into account the configuration and quantity of
16 assets needed in the network and the appropriate level of staffing and support
17 assets required to operate that network. It would also exclude those costs that
18 should not be part of a wholesale UNE recurring cost study. As noted previously,
19 the only adjustments Verizon – FL has made to its expenses are for accounting-
20 based normalization entries, removal of certain non-forward looking costs such
21 as analog switching, retail avoided costs and costs recovered through other cost
22 studies.

1 **Q. PLEASE EXPLAIN IN FURTHER DETAIL HOW VERIZON – FL**
2 **OVERSTATES THE COSTS OF SUPPORT ASSETS AND THE NUMERATOR**
3 **PORTION OF ITS EXPENSE-TO-INVESTMENT RATIOS.**

4 A. Verizon – FL applies C. A. Turner Plant Indices to its book investment to bring it
5 up to replacement cost (see Attachments J.1 – J.4 in the ICM Expense
6 supporting documentation). The indices are simply tools to identify the relative
7 change in price over a period of time. They do not identify whether the same
8 quantity or type of investment would be required in a forward-looking construct.
9 Therefore, application of a price index alone is insufficient to make investment
10 forward-looking.

11 Verizon – FL applies the C. A. Turner indices to support investment contained in
12 USOA accounts 2111 through 2124 (see Attachment K in Verizon – FL’s ICM
13 Expense supporting documentation). The net effect of this process is to increase
14 support investment from \$472,473,000 to \$610,896,842, which is a 29%
15 increase. Verizon – FL then applies its annual cost factors for (1) depreciation
16 and cost of capital, (2) income taxes and (3) property taxes to calculate annual
17 general support expenses.

18 These annual general support expenses then flow to the schedule where
19 maintenance, support and common costs are compiled (see Attachment O in the
20 ICM Expense supporting documentation). Based on Verizon – FL’s allocation of
21 support and direct expenses to its various direct cost pools and common costs,
22 63% of the overstatement caused by the C. A. Turner indices ends up in the
23 numerator of the maintenance and support factor calculation. The remaining

1 37% of this overstatement ends up in the common cost expense amount used in
2 the common cost factor calculation. Therefore, the Commission should reject
3 Verizon – FL’s use of the C. A. Turner indices because this methodology does
4 not consider what physical quantity or type of support asset is necessary in a
5 forward-looking construct. Instead, the C.A. Turner indices only serve to inflate
6 the current embedded base of assets to today’s prices. Consequently, the
7 Commission should require Verizon – FL to recalculate its annual support costs
8 using a forward-looking investment base to calculate forward-looking support
9 costs and using appropriate capital cost factors for depreciation and cost of
10 capital as recommended by Dr. Ankum. Clearly, the forward-looking investment
11 base should be less than its current book investment.

12 **Q. PLEASE EXPLAIN FURTHER HOW VERIZON – FL INAPPROPRIATELY**
13 **REDUCES THE INVESTMENT USED IN THE DENOMINATOR PORTION OF**
14 **THE EXPENSE-TO-INVESTMENT RATIO.**

15 A. Verizon – FL inappropriately reduces the denominator portion of the expense-to
16 investment ratio calculation by substituting the investment calculated within its
17 cost model (“ICM Investment”) for the level of investment that produced the
18 expense used in the numerator portion of the ratio. This is accomplished through
19 a process Verizon – FL calls calibration. Verizon – FL describes this process in
20 the ICM Expense Module Methodology and in the following response to a Staff
21 interrogatory:

22 This calibration results in using the forward-looking ICM-FL
23 modeled network investments when calculating the expense to

1 investment ratios vs. using replacement costs or historical book
2 costs. Note that this calibration option can be selected or rejected
3 by the user. If calibration is not selected by the user, ICM-FL uses
4 the replacement cost of investment values to calculate the
5 network expense to investment ratios. (see Verizon – FL
6 response to Staff's Second Set of Interrogatories, No. 53)

7

8 An unwarranted reduction in the denominator increases the fraction, or cost
9 factor, that is applied against the ICM Investment, which increases the annual
10 recurring costs of each UNE. It appears that Verizon – FL anticipated calibration
11 might be controversial by noting that the ICM user can reject this option.

12 **Q. WHY IS THIS TYPE OF ADJUSTMENT TO THE DENOMINATOR**
13 **INAPPROPRIATE?**

14 A. The primary reason that Verizon – FL's reduction of the denominator is
15 inappropriate is that you cannot use the output of the same model you are using
16 to determine a factor that will then be applied against that output to calculate
17 recurring expenses. This is circular logic at best. Consistency demands that like
18 terms are used in the numerator and the denominator. If Verizon – FL chooses
19 to use its calculation of forward-looking investment in the denominator, it must
20 use a forward-looking determination of expenses in the numerator.

21 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING**
22 **VERIZON – FL'S USE OF ITS CALIBRATION METHDOLOGY?**

1 A. I recommend that the Commission reject Verizon – FL’s use of the calibration
2 option within its ICM for the reasons I discussed previously.

3 **Q. CAN YOU QUANTIFY THE IMPACT OF VERIZON – FL’S CALIBRATION**
4 **METHODOLOGY?**

5 A. Yes, I can. Attachment J.4 within Verizon – FL’s ICM Expense documentation
6 details total investment in three categories:

INVESTMENT TYPE	INVESTMENT PER ATTACHMENT J.4	ICM INVESTMENT AS A PERCENTAGE
ARMIS (book) Investment	\$4,336,566,501	70%
C. A. Turner-adjusted Investment	\$4,989,392,818	61%
ICM Investment	\$3,056,380,561	100%

7

8 The ICM investment is approximately 70% of the book investment and 61% of
9 the C. A. Turner-adjusted investment. If the ICM investment is used in the
10 expense-to-investment ratio as Verizon – FL’s calibration methodology requires,
11 the maintenance and support factors are overstated by the following percentages
12 than if the other two investment balances were used in the denominator:

13 1. ARMIS (book) investment: 43% overstatement (1 / 0.70 =
14 1.43)

15 2. C. A. Turner-adjusted investment: 64% overstatement (1 / 0.61 =
16 1.64)

17 In the above calculations, the percentage noted in the denominator represents
18 the impact of using ICM investment rather than book or adjusted book

1 investment. If the calibration option is turned off within ICM-FL, the statewide
2 average 2-wire loop costs declines by approximately \$1. If this change is made
3 in conjunction with the depreciation and cost of capital changes recommended
4 by Dr. Ankum, the cumulative reduction results in a statewide average 2-wire
5 loop cost of \$17.84 compared to Verizon – FL’s proposed rate of \$22.94.

6 **C. (u): Allocation of Common Costs**

7 **Q. DO YOU HAVE ANY CONCERNS WITH VERIZON’S PROPOSED**
8 **RECOVERY OF COMMON COSTS?**

9 A. Yes, I have the following concerns.

- 10 1. The percentage of common cost recovery that Verizon – FL seeks,
11 14.09%, appears to be excessive for a company that is now part of one of
12 the largest local exchange carriers in the nation.
- 13 2. Verizon – FL has chosen the higher common cost factor of the two
14 versions it calculated within its cost studies while giving no consideration
15 to the FCC’s suggestion that only a relatively small share of common
16 costs be allocated to critical network elements such as the local loop.
- 17 3. Verizon - FL does not consistently apply its common cost allocator as a
18 percentage to deaveraged zone rates.
- 19 4. Verizon – FL has inflated its common cost recovery by including
20 lobbying, legal, and regulatory costs that are adverse to the interests
21 of the ALECs.

22 **Q. PLEASE EXPAND ON THE IMPACT THAT THE BELL ATLANTIC / GTE**
23 **MERGER SHOULD HAVE ON COMMON COSTS.**

1 A. A firm with Verizon's size and scope should be accountable for the economies of
2 scale and efficiencies it promised investors, regulators and customers when it
3 promoted the benefits of the mergers between Bell Atlantic and NYNEX and then
4 Bell Atlantic and GTE. In its Form S-4s filed with the Securities Exchange
5 Commission prior to each merger, Bell Atlantic extolled the various capital,
6 revenue and expense synergies that would occur after each merger was
7 completed. For the merger with GTE, Bell Atlantic estimated that revenue,
8 expense and capital synergies would be approximately \$4.5 billion per year while
9 incurring transition and integration costs of only \$1.6 billion over three years. On
10 the same page where Bell Atlantic outlined the anticipated benefits of the merger
11 with GTE, it stated the following:

12 Both GTE and Bell Atlantic have proven track records in
13 successfully and quickly integrating business operations. GTE
14 today thrives as a highly focused, integrated company after a
15 series of major acquisitions over the past decade, including the
16 acquisitions of Contel Corporation in 1991 and BBN Corporation in
17 1997. Bell Atlantic and NYNEX formed a wireless joint venture in
18 1994. By 1996, the wireless joint venture achieved a market
19 leadership position with innovative products, faster customer
20 growth and sharply improved profitability, which were further
21 enhanced when the two companies merged in 1997. *The*
22 *integration of Bell Atlantic and NYNEX is now largely complete,*
23 *and the forecast efficiencies are being achieved successfully.*

1 [Emphasis added] (see page I-24 of Bell Atlantic Form S-4 filed
2 April 13, 1999 attached as **Exhibit WRF-6**).

3
4 Based on the foregoing statement, Verizon should realize the anticipated GTE
5 merger savings fairly rapidly. These expected savings should be considered in
6 lockstep with this Commission previous determination that BellSouth, which is a
7 much smaller carrier in total size than Verizon, should recover common costs
8 using a 6.24% factor (see *May 25, 2001 UNE Order*, page 326-327). This is
9 less than half of Verizon – FL’s proposed common cost factor. By any measure
10 of reasonableness, Verizon – FL’s common cost factor should be within a few
11 percentage points, either higher or lower, of BellSouth’s factor.

12 **Q. PLEASE EXPLAIN YOUR CRITICISM OF VERIZON – FL’S COMMON COST**
13 **FACTOR METHODOLOGY.**

14 A. First of all, Verizon – FL calculated two versions of its common cost factor within
15 its cost studies. The 14.09% factor proposed by Verizon – FL (see Trimble
16 direct, Exhibit DBT-1) is the result of dividing common costs by direct costs.
17 While using direct cost as the denominator may be an acceptable method, the
18 Verizon predecessor, GTE, typically used total regulated revenue as the
19 denominator. In fact, Verizon – FL prepared an alternative common cost factor in
20 its cost study documentation using total regulated revenues as the denominator
21 resulting in an **11.55%** factor (see Attachment Q within the ICM Expense
22 documentation). Mr. Trimble presents no explanation as to why the higher factor

1 based upon direct costs was chosen over the one based upon total regulated
2 revenues. Consequently, the Commission should consider the lower factor
3 based on revenue in conjunction with the company-wide merger savings noted
4 above to ensure UNE rates are not overstated due to some arbitrary decision
5 made by Verizon – FL.

6 Secondly, Verizon – FL gave no consideration to the alternative cost recovery
7 method suggested by the FCC in the Local Competition Order. While
8 acknowledging that a percentage markup over directly attributable forward-
9 looking cost was a reasonable allocation method, the FCC also suggested that
10 second reasonable method would allocate only a relatively small share of
11 common costs to certain critical network elements, such as the local loop and
12 collocation that are considered bottleneck facilities (§ 696). The FCC concluded
13 that this method would ensure that prices of network elements that are least
14 likely to be subject to competition are not artificially inflated by a large allocation
15 of common costs. Therefore, the Commission should consider requiring
16 Verizon – FL to allocate a smaller portion of common costs to UNE loops.

17 **Q. DO YOU AGREE WITH MR. TRIMBLE’S PROPOSAL TO RECOVER A**
18 **UNIFORM AMOUNT OF COMMON COSTS FOR A PARTICULAR UNE**
19 **REGARDLESS OF THE DEAVERAGED ZONE COSTS?**

20 **A.** No, I do not. Mr. Trimble explains his rationale for applying a uniform or fixed
21 amount of common cost to a UNE on pages 33-34 of his direct testimony. He
22 states that it is unreasonable to assign a larger share of common costs to rural
23 UNE loops than to urban loops. He therefore spreads common cost recovery

1 equally over each deaveraged zone for a UNE. This practice is inconsistent with
2 the concept of deaveraging costs where higher cost areas bear the cost required
3 to serve that area. Common cost recovery should be treated no differently than
4 direct and shared costs that have been deaveraged. If Verizon – FL chooses to
5 use a fixed allocator methodology to recover common costs, it should apply this
6 allocator to the deaveraged TELRIC costs, not just to the statewide average
7 TELRIC cost of a UNE. The consequence of Verizon – FL’s proposal is an
8 unjustified overstatement of its Zone 1 costs. Where a 2-wire loop is priced at
9 \$22.17 in Zone 1 using Verizon – FL’s proposed inputs and its deaveraging
10 methodology (see Trimble direct testimony, Exhibit DBT-2, page 1 of 8), it should
11 cost \$21.60 (\$18.94 TELRIC cost in Zone 1 + (\$18.94 * 14.09% common cost
12 allocator)). Verizon – FL is simply raising the price in the zone most likely to
13 experience competition initially without justification. Therefore, the Commission
14 should require Verizon – FL to re-calculate its deaveraged rates by applying the
15 common cost allocator as a percentage to each zone, not a fixed cost additive.

16 **Q. SHOULD VERIZON – FL BE PERMITTED TO RECOVER EXTERNAL**
17 **RELATIONS AND LEGAL COSTS FROM ALECS?**

18 A. There should be no lobbying, legal, and regulatory costs included in Verizon
19 – FL’s common cost recovery to the extent they are incurred in a way that is
20 adverse to the interests of ALECs. These costs are generally incurred for
21 both retail and wholesale services. During my review of Verizon – FL’s
22 supporting adjustment factor schedule (see Attachment I in ICM Expense
23 documentation), it appears that Verizon – FL removed approximately 15% of

1 its external relations (USOA 6722) and legal expense (USOA 6725) in its
2 *Wholesale Adjust 1 Factor* (Column H). However, none of the expenses
3 attributable to litigation and other actions adverse to the efforts of ALECs
4 should be included in UNE rates. There are two reasons for this: (1) the
5 legal, lobbying, and regulatory efforts exerted by incumbents are generally
6 expended for the benefit of Verizon - FL's retail offerings; and, (2) the ALECs
7 incur their own costs such as these, which are not recovered, in whole or in
8 part, from the incumbent LECs. It is fundamentally unfair to require ALECs to
9 support legal, lobbying and regulatory costs that are typically expended
10 against them. The only allowable costs should be those associated with
11 normal company operations and compliance with administrative requirements
12 of state commissions such as tariff filings. All other expenses spent litigating
13 and lobbying against ALEC interests should be removed. Absent such a
14 disclosure, all of these costs should be removed. If the Commission were to
15 order all of these expenses removed, Verizon – FL's common cost factor
16 would decline from 14.09% to 12.97% if the direct cost denominator was
17 used and from 11.55% to 10.6% if total regulated revenue were used as the
18 denominator. These adjusted common cost factors require further reduction
19 to account for the broader savings from the Bell Atlantic / GTE merger.

20 **IV. CONCLUSION AND RECOMMENDATIONS**

21 **Q. BASED ON YOUR ANALYSIS OF VERIZON – FL'S TESTIMONY AND**
22 **COST SUPPORT IN THIS PROCEEDING, WHAT ARE YOUR**
23 **CONCLUSIONS AND RECOMMENDATIONS?**

- 1 A. I recommend that the Commission require the following:
- 2 1. Use the Sprint rate banding methodology to deaverage the relevant
3 Verizon – FL UNEs. While I believe that Sprint’s proposed $\pm 20\%$
4 deviation standard is a reasonable benchmark to use in grouping wire
5 centers by their forward-looking cost, the Commission can set a
6 higher deviation standard if it decides to limit the number of rate zones
7 or bands. However, the essential considerations in determining the
8 number of zones is not administrative expediency, but the proper
9 grouping of UNEs to reflect the spectrum of the costs required to
10 provision those UNEs and ensuring that competitive activity is not
11 restricted.
- 12 2. Reject Verizon – FL’s use of a 12.95% cost of capital and financial
13 reporting lives for depreciation. Instead, the Commission should
14 require Verizon – FL to re-run its cost studies with the cost of capital
15 and depreciation lives recommended by Dr. Ankum.
- 16 3. Reject Verizon – FL’s use of the C. A. Turner indices to inflate book
17 investment values and its use of ICM investment in its expense-to-
18 investment ratio calculations.
- 19 4. For common cost recovery, the Commission should (1) require
20 Verizon to properly account for its realized and expected merger
21 savings and to determine a common cost factor that is consistent with
22 Verizon being one of the largest ILECs in the country (2) use the

1 common cost factor based upon total regulated revenue with
2 consideration given to a smaller allocation of common costs to UNE
3 loops, (3) require Verizon – FL to apply the common cost factor to
4 deaveraged rates as a percentage, and (4) require Verizon – FL to
5 remove lobbying, legal, and regulatory costs from its common cost
6 factor that are adverse to ALEC interests.

7 **Q. PLEASE SUMMARIZE THE PROPOSED 2-WIRE LOOP RATES FOR**
8 **VERIZON – FL THAT RESULT FROM YOUR RECOMMENDED INPUT**
9 **CHANGES?**

10 A. Verizon – FL proposes a statewide average 2-wire loop price of \$22.94
11 before adding common costs. The 2-wire loop prices that result from my
12 recommended input changes result in a reduction of approximately 22%
13 broken down as follows:

14 1. If the Commission were to implement Dr. Ankum’s recommendations
15 on cost of capital and depreciation lives, the price would decline
16 approximately \$4 per month to \$18.98, a 17% decline.

17 2. If the calibration option is turned off within ICM-FL, the price declines by
18 an additional \$1 to \$17.84, an additional 5% decline.

19 Requiring Verizon – FL to apply its common cost factor as a percentage to
20 deaveraged zone rates would cause a \$0.57 decline in the Zone 1, 2-wire
21 loop rate.

22 Applying a common cost factor based on regulated revenue adjusted for

1 removal of lobbying, regulatory and legal expenses would reduce Verizon –
2 FL's proposed factor of 14.09% to 10.6%, resulting in a decrease in the
3 common costs added to the statewide average 2-wire loop rate of \$0.80
4 (\$3.23 - \$2.43).

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.** Yes, it does.

Contact Information

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Denver, Colorado 80209

Phone: (303) 322-0109

Fax: (303) 333-1233

E-mail: wfischer@qsiconsulting.com

Current Position

Senior Consultant, Quantitative Solutions, Inc.

2000 to Present

Professional Experience

AT&T – Network Services Division

Financial Manager – Denver, Colorado

1997 - 2000

Supervisor – Denver, Colorado

1996 - 1997

AT&T Wireless Services – Cellular Division

Marketing Analyst / Planner – Denver, Colorado

1995 - 1996

E. & J. Gallo Winery

Senior Financial Analyst – Modesto, California

1994 - 1995

Operations Accountant – Modesto, California

1991 - 1994

Century 21 Real Estate Corporation

Financial Analyst – Irvine, California

1987 - 1991

Deloitte & Touche

Audit-in-Charge – Costa Mesa, California

1985 - 1987

Education

B.S. Business Administration, University of Colorado. Accountancy courses to meet C.P.A. continuing education requirements. Courses on costing and pricing of telecommunications services, jurisdictional separations, access and universal service reform, and network architecture.

Certification

A.I.C.P.A.; C.P.A. licenses in California and Colorado.

Testimony Profile and Experience

Before the Public Service Commission of Maryland

Case No. 8879

(REBUTTAL – SEPTEMBER 5, 2001; SURREBUTTAL – OCTOBER 15, 2001)

*IN THE MATTER OF THE INVESTIGATION INTO RATES FOR UNBUNDLED NETWORK ELEMENTS
PURSUANT TO THE TELECOMMUNICATIONS ACT OF 1996*

On Behalf of the Staff of the Public Service Commission of Maryland

Provided a critique of the annual cost factors proposed by Verizon Maryland, Inc. and reran Verizon's cost studies with Staff's recommended input changes.

Before the Massachusetts Department of Telecommunications and Energy

Docket DTE 01-20

(REBUTTAL – JULY 17, 2001)

INVESTIGATION BY THE DEPARTMENT 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.

On Behalf of the CLEC Coalition.

Provided a critique of the annual cost factors proposed by Verizon Massachusetts.

Before the Federal Communications Commission

File Nos. EB-01-MD-001 and EB-01-MD-002

AFFIDAVIT – FEBRUARY 23, 2001

IN THE MATTER OF THE FORMAL COMPLAINTS OF AT&T CORP. AND SPRINT COMMUNICATIONS COMPANY L.P., VS. BUSINESS TELECOM, INC.

On behalf of Business Telecom, Inc.

Provided information supporting the premise that the unit costs incurred by a CLEC such as BTI are higher than those of a Tier 1 incumbent local exchange carrier ("ILEC").

Before The North Carolina Utilities Commission

Docket No. P-100, Sub 133d, Phase I

(DIRECTD TESTIMONY – AUGUST 11, 2000)

IN THE MATTER OF GENERAL PROCEEDING TO DETERMINE PERMANENT PRICING FOR UNBUNDLED NETWORK ELEMENTS

On Behalf of New Entrants

Reviewed Sprint UNE deaveraging proposal and commented on advanced services issues.

Before the Public Utilities Commission of the State of Colorado

Docket No. 99A-161T

(DIRECT-AUGUST 6, 1999)

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC. TO REDUCE BUSINESS BASIC EXCHANGE AND LONG DISTANCE REVENUES UPON RECEIPT OF THE COLORADO HIGH COST SUPPORT MECHANISM IN ACCORDANCE WITH DECISION NO. C 99-222.

On behalf of AT&T Communications of the Mountain States, Inc.

U S WEST filing to reduce intraLATA toll and business exchange rates in the amount of Colorado High Cost Support Mechanism funds received. Toll rate design failed to comply with appropriate imputed price floors. Testimony was filed, but case was settled prior to hearing.

Before the Public Utilities Commission of the State of Colorado

Docket No. 98A-068T

(AMENDED DIRECT - MAY 25, 1999; SUPPLEMENTAL - JUNE 9, 1999)

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC. TO RESTRUCTURE AND REDUCE SWITCHED ACCESS RATES PURSUANT TO THE STIPULATION IN DOCKET NO. 97A-540T.

On behalf of AT&T Communications of the Mountain States, Inc.

U S WEST filing to reduce switched access rates as part of a Local Transport Restructure filing and in return for Colorado High Cost Support Mechanism funds. Argued that access reductions did not fully comply with settlement agreement and that access rates were significantly in excess of any measure of forward-looking cost and UNE rates.

Before the Nebraska Public Service Commission

Application No. C-1628

(DIRECT - OCTOBER 20, 1998)

IN THE MATTER OF THE NEBRASKA PUBLIC SERVICE COMMISSION, ON ITS OWN MOTION, SEEKING TO CONDUCT AN INVESTIGATION INTO INTRASTATE ACCESS CHARGE REFORM AND INTRASTATE UNIVERSAL SERVICE FUND.

On behalf of AT&T Communications of the Midwest, Inc.

This was a Commission-initiated investigation on intrastate access reform. I testified on the need to reduce access rates to forward-looking economic cost and not create a state universal service fund based on ILEC revenue neutrality.

Before the New Mexico State Corporation Commission

Docket No. 96-310-TC and Docket No. 97-334-TC

(DIRECT - JULY 8, 1998; REBUTTAL - AUGUST 5, 1998)

IN THE MATTER OF THE CONSIDERATION OF THE ADOPTION OF A RULE CONCERNING COSTING METHODOLOGIES.

IN THE MATTER OF THE IMPLEMENTATION OF NEW RULES RELATED TO THE RURAL, HIGH COST, AND LOW INCOME COMPONENTS OF THE NEW MEXICO UNIVERSAL SERVICE FUND.

On behalf of AT&T Communications of the Mountain States, Inc.

Phase II of an interconnection cost case on recurring and non-recurring prices and cost for UNEs for U S WEST and GTE.

Before the Wyoming Public Service Commission

Docket No. 70000-TR-98-420

(DIRECT - SEPTEMBER 9, 1998)

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC. FOR AUTHORITY TO IMPLEMENT PRICE CEILING IN CONJUNCTION WITH ITS PROPOSED WYOMING PRICE REGULATION PLAN FOR ESSENTIAL AND NONCOMPETITIVE TELECOMMUNICATION SERVICES.

On behalf of AT&T Communications of the Mountain States, Inc.

U S WEST's Price Plan filing. Argued against pricing flexibility for switched access, pointed out faulty assumptions in U S WEST's cost study, and stressed the need for compliance with imputation standards.

Before the Wyoming Public Service Commission

Docket No. 70000-TA-98-442

(DIRECT - JANUARY 6, 1999)

IN THE MATTER OF THE SECOND APPLICATION OF U S WEST COMMUNICATIONS, INC. FOR A FINDING THAT ITS INTEREXCHANGE TELECOMMUNICATIONS SERVICES ARE SUBJECT TO COMPETITION.

On behalf of AT&T Communications of the Mountain States, Inc.

Argued against toll deregulation for U S WEST.

Before the Public Service Commission of the State of North Dakota

Docket No. PU-314-97-465

(REBUTTAL - FEBRUARY 27, 1998)

IN THE MATTER OF U S WEST COMMUNICATIONS, INC. UNIVERSAL SERVICE COSTS INVESTIGATION.

On behalf of AT&T Communications of the Midwest, Inc.

Addressed policy issues related to selection of a cost proxy model to determine size of a state USF and reiterated why commission should adopt HAI model.

Before the Wyoming Public Service Commission

General Order No. 81 (DIRECT – 11/21/1997; AMENDED DIRECT – 1/23 1998; REBUTTAL – 2/6/1998)

On behalf of AT&T Communications of the Mountain States, Inc.

Addressed policy issues related to selection of a cost proxy model to determine size of a state USF and reiterated why commission should adopt HAI model.

Before the Wyoming Public Service Commission

Docket No. 70007-TR-95-15 (ADOPTED AND REVISED NATALIE BAKER'S DIRECT – OCTOBER 1996)

On behalf of AT&T Communications of the Mountain States, Inc.

Rebutted rate base and revenue requirement calculations proposed by Dubois Telephone.

PAYPHONE SUBSIDY REMOVAL

Before the Nebraska Public Service Commission

Docket No. C-1519 (DIRECT – JANUARY 20, 1998)

IN THE MATTER OF THE EMERGENCY PETITION OF MCI TELECOMMUNICATIONS CORPORATION AND AT&T COMMUNICATIONS OF THE MIDWEST, INC. TO INVESTIGATE COMPLIANCE OF NEBRASKA LECS WITH FCC PAYPHONE ORDERS.

On behalf of AT&T Communications of the Midwest, Inc.

Advocated removal of switched access subsidies from payphone services.

Before the Wyoming Public Service Commission

Docket No. 72000-TC-97-99 (DIRECT – MAY 15, 1997)

On behalf of AT&T Communications of the Mountain States, Inc.

Advocated removal of switched access subsidies from payphone services.

Before the Public Service Commission of the State of Montana

Docket No. D96.12.220 (DIRECT – OCTOBER 28, 1997)

On behalf of AT&T Communications of the Mountain States, Inc.

U S WEST rate rebalancing case. Advocated removal of switched access subsidies from payphone services. AT&T withdrew from the case after testimony was filed due to discovery dispute.

Before the New Mexico State Corporation Commission

Docket No. 97-69-TC (DIRECT – MARCH 1997)

On behalf of AT&T Communications of the Mountain States, Inc.

Advocated removal of switched access subsidies supporting payphone services.

SECTION 271 / 272 OF THE 1996 TELECOMMUNICATIONS ACT

Before the Public Service Commission of the State of Montana

Docket No. D97.5.87 (DIRECT & REBUTTAL – 6/16/1998; SUPPLEMENTAL REBUTTAL – 11/6/1998)

On behalf of AT&T Communications of the Mountain States, Inc.

U S WEST application for Section 271 relief in Montana. I filed testimony on U S WEST's failure to comply with Section 272 separate affiliate requirements. U S WEST pulled its application due to discovery limitations.

Before the Nebraska Public Service Commission

Application No. C-1830 (DIRECT & REBUTTAL – AUGUST 7, 1998)

On behalf of AT&T Communications of the Midwest, Inc.

U S WEST application for Section 271 relief in Nebraska. I filed testimony on U S WEST's failure to comply with Section 272 separate affiliate requirements. Intervenors withdrew testimony due to ALJ order on discovery compelling release of marketing plans.

Before the New Mexico State Corporation Commission

Docket No. 97-106-TC (DIRECT & REBUTTAL – JULY 27, 1998; REPLY – SEPTEMBER 8, 1998)

On behalf of AT&T Communications of the Mountain States, Inc.

U S WEST application for Section 271 relief in New Mexico. I filed testimony on U S WEST's failure to comply with Section 272 separate affiliate requirements. U S WEST withdrew application due to discovery restrictions.

Before the Wyoming Public Service Commission

Docket No. 72000-TI-97-107 and Docket No. 70000 TI-97-352 (N/A – CONTACT AT&T LAW & GOV'T. AFFAIRS)

On behalf of AT&T Communications of the Mountain States, Inc.

U S WEST application for Section 271 relief in Wyoming. I filed testimony on U S WEST's failure to comply with Section 272 separate affiliate requirements. U S WEST withdrew its application.

DOCKET NO. 990649B-TP

WITNESS: FISCHER

EXHIBIT _____ (WRF-2)

PROPRIETARY

DOCKET NO. 990649B-TP

WITNESS: FISCHER

EXHIBIT _____ (WRF-3)

PROPRIETARY

DOCKET NO. 990649B-TP

WITNESS: FISCHER

EXHIBIT _____ (WRF-4)

PROPRIETARY

DOCKET NO. 990649B-TP

WITNESS: FISCHER

EXHIBIT _____ (WRF-5)

PROPRIETARY

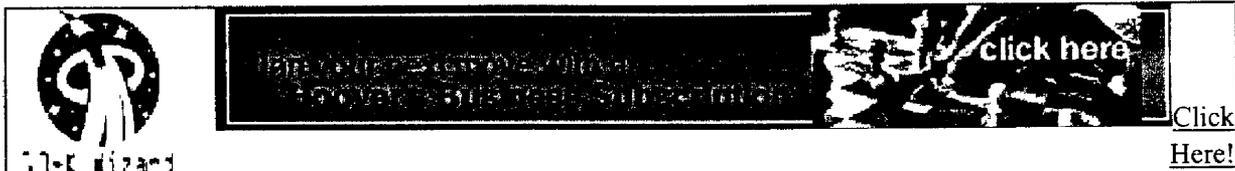
DOCKET NO. 990649B-TP

WITNESS: FISCHER

EXHIBIT NO. _____ (WRF-6)

BELL ATLANTIC/GTE MERGER DOCUMENTS

4 PAGES



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BELL ATLANTIC CORP, VERIZON COMMUNICATIONS INC, filed this S-4 on 04/13/1999.

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<PAGE>

As filed with the Securities and Exchange Commission on April 13, 1999

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

BELL ATLANTIC CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware 4913 23-2259884
(State or Other (Primary Standard Industrial (I.R.S. Employer
Jurisdiction of Classification Number) Identification No.)
Incorporation or
Organization)

1095 Avenue of the Americas
New York, New York 10036
(212) 395-2121
(Address, Including Zip Code, and Telephone Number, Including Area Code, of
Registrant's Principal Executive Offices)

P. Alan Bulliner
Bell Atlantic Corporation
1095 Avenue of the Americas
New York, New York 10036
(212) 395-2121
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code,
of Agent for Service)

Copies to:
Peter A. Atkins Jeffrey J. Rosen
Skadden, Arps, Slate, Meagher & Flom LLP O'Melveny & Meyers LLP
919 Third Avenue 153 East 53rd Street
New York, New York 10022 New York, New York 10022
(212) 735-3000 (212) 326-2000

Approximate date of commencement of proposed sale to public: As soon as

practicable after this Registration Statement is declared effective and all the conditions to the proposed merger of a subsidiary of the Registrant with and into GTE Corporation, as described in the enclosed joint proxy statement and prospectus, have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

Title of Each Class of of Securities to be Registered(1) Fee(4)	Amount To Be Registered(2)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(3)	Amount
Common Stock, par value \$0.10 per share.....	1,297,680,618	N/A	\$63,920,130,773.44	\$17,769,796.36

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- (1) This Registration Statement relates to shares of Bell Atlantic common stock, \$.10 par value per share, to be issued in connection with the merger upon the conversion of outstanding shares of GTE common stock, \$.05 par value per share.
 - (2) Consists of shares of Bell Atlantic common stock issuable pursuant to the merger upon the conversion of (i) currently outstanding shares of GTE common stock, and (ii) shares of GTE common stock issuable upon the exercise of GTE options or pursuant to GTE's other stock plans prior to the merger becoming effective.
 - (3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f)(1) and Rule 457(c) of the Securities Act of 1933, as amended, based on the product of (i) \$60.0938 (the average of the high and low prices per share of GTE common stock on April 6, 1999 on the New York Stock Exchange Composite Transactions Tape), multiplied by (ii) 1,063,672,638 (the number of shares of GTE common stock, outstanding and issuable upon the exercise of GTE options or pursuant to GTE's other stock plans prior to the merger becoming effective).
 - (4) Pursuant to Rule 457(b) of the Securities Act of 1933, Bell Atlantic and GTE previously paid a filing fee in the amount of \$13,304,313.00 in

assets and capabilities independently.

3. The merger is expected to generate significant revenue, expense and capital synergies.

The management and directors of each of our companies believe that the merger will result in significant opportunities for cost savings, revenue growth, technological development and other benefits. The combined company will achieve synergies through economies of scope and scale, the elimination of duplicative expenditures and the consistent use of the best practices of GTE, Bell Atlantic and the industry in cost control and product offerings.

Based on anticipated revenue and expense synergies, we expect that the merger will improve earnings per share, excluding merger-related charges, in the first year following completion. We estimate that the merger will also generate significant capital synergies, producing higher capital efficiency and higher cash flow and margin growth. By the third year after completion of the merger, we expect:

- . annual revenue synergies of approximately \$2 billion, primarily from improved market penetration for value-added services (e.g., call waiting and caller I.D.) and faster development of our data and long distance businesses, which, at an estimated operating margin of 25%, will produce \$500 million in incremental operating income;
- . annual expense synergies of approximately \$2 billion, with savings generated from operating and procurement synergies, reduced corporate overheads, the migration of long distance traffic onto GTE's network, and greater efficiency in wireless operations; and
- . annual capital synergies of approximately \$500 million through volume purchasing and the elimination of certain capital costs associated with building a data network in Bell Atlantic's current territory.

We are targeting revenue growth of 8-10% and earnings per share growth of 13-15% (excluding merger-related charges) in each of the first two years following the completion of the merger. By the third year after the completion of the merger, we are targeting revenue growth in excess of 10% and earnings per share growth in excess of 15% (excluding merger-related charges).

In addition to direct incremental merger-related costs of approximately \$375 million, we expect transition and integration charges to aggregate approximately \$1.2 billion to \$1.6 billion over the three years following completion of the merger. For additional information on direct incremental merger-related costs and transition and integration charges pertaining to the merger, see the "Unaudited Pro Forma Combined Condensed Financial Statements" in this Chapter I.

Both GTE and Bell Atlantic have proven track records in successfully and quickly integrating business operations. GTE today thrives as a highly focused, integrated company after a series of major acquisitions over the past decade, including the acquisitions of Contel Corporation in 1991 and BBN Corporation in 1997. Bell Atlantic and NYNEX formed a wireless joint venture in 1994. By 1996, the wireless joint venture achieved a market leadership position with innovative products, faster customer growth and sharply improved profitability, which were further enhanced when the two companies merged in 1997. The integration of Bell Atlantic and NYNEX is now largely complete, and the forecast efficiencies are being achieved successfully.

GTE Board of Directors' Consideration and Approval of the Merger

At meetings of the GTE Board of Directors held on July 26 and July 27, 1998, members of GTE's management and representatives of GTE's financial advisors made presentations concerning the business and

I-25

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prospects of GTE and the potential combination of GTE and Bell Atlantic. The GTE Board of Directors also received presentations concerning, and reviewed the terms of, the merger agreement and the stock option agreements with members of GTE's management and its legal counsel and financial advisors. At the July 27 meeting, the GTE Board of Directors unanimously determined that the terms of the merger were fair to, and in the best interests of, GTE shareholders. Accordingly, the GTE Board of Directors unanimously approved the merger agreement, the stock option agreements and the related transactions, and recommends that GTE shareholders approve the GTE merger proposal.

Information and Factors Considered by the GTE Board of Directors

In deciding whether to approve the merger, the merger agreement and the stock option agreements, the GTE Board of Directors considered a number of factors in addition to those explained in the section discussing the reasons for the merger. The following summarizes the other material information and factors that the GTE Board of Directors considered:

1. The unprecedented regulatory and technological changes that are driving consolidation within the telecommunications industry and underscoring the need to increase scale and scope in order to emerge as a top tier competitor;
2. GTE's strategy for maintaining its existence as an independent company, including the benefits of and various alternatives to that strategy, and the anticipated effect of that strategy on GTE's continued ability to compete;
3. Important considerations about GTE, Bell Atlantic and the proposed combined company including:
 - . the financial condition, results of operations, cash flows and prospects of GTE, Bell Atlantic and the combined company;
 - . the expectation that the combined company will produce greater shareholder returns than either GTE or Bell Atlantic could produce on its own;
 - . the belief that the combined company will produce earnings growth at or above the high end of GTE's current projected range, and will increase the ability to sustain these earnings by producing significant synergies and improving GTE's access to the data-intensive customer base of Bell Atlantic;
 - . the strategic fit of GTE and Bell Atlantic, including the potential synergies and the impact of those synergies on the ability of the combined company to compete in the industry; and