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March 31, 2004

Mrs. Blanca S. Bayó
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2540 Shumard Oak Boulevard
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Re: Docket Nos. 981834-TP and 990321-TP (Generic Collocation)

Dear Ms. Bayó:

Enclosed are an original and fifteen copies of Verizon Florida Inc.'s Phase II Post-Hearing Statement and Brief, which we ask that you file in the captioned docket. Also included is a diskette containing the Phase II Post-Hearing Statement and Brief in Microsoft Word.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served to the parties shown on the attached Certificate of Service.

Sincerely,

Catherine Kane Ronis

cc: All Parties of Record
Charles Schubart

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Competitive Carriers for Commission action to support local Competition in BellSouth Telecommunications Inc.'s service territory	)	Docket No. 981834-TP
In re: Petition of ACI Corp. d/b/a Accelerated Connections, Inc. for generic investigation to ensure that BellSouth Telecommunications, Inc., Sprint-Florida, Incorporated, and GTE Florida Incorporated comply with obligation to provide alternative local exchange carriers with flexible, timely, and cost-efficient physical collocation.	)	Docket No. 990321-TP

VERIZON FLORIDA INC.'S PHASE II POST-HEARING STATEMENT AND BRIEF

Verizon Florida Inc. ("Verizon") files this Phase II Post-Hearing Statement and Brief in accordance with Commission Rule 28-106.215, the Commission's Prehearing Order (Order No. PSC-04-0066-PHO-TP (Jan. 22, 2004)), and the Commission's oral rulings at the conclusion of the Phase II hearing.[1/]

I. Verizon's Basic Position

It is well established that the rates charged by incumbents for facilities and services should be based on the costs that *the respective incumbent* can expect to incur to provide those facilities and services.[2/] AT&T's proposal to force BellSouth's cost model and inputs on Verizon, and thus to assign rates to Verizon based on *BellSouth's*

1/ 1/29/04 Tr. at 905 (Baez) (moving briefing date to April 1, 2004).

2/ The Federal Communications Commission ("FCC") has never wavered from its original mandate that UNE cost proceedings produce "costs that incumbents actually expect to incur in making network elements available to new entrants." First Report and Order, *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 FCC Rcd 15499 ¶ 685 (1996) ("*Local Competition Order*"); *see* Reply Brief for Petitioners Federal Communications Commission and the United States, *Verizon Communications, Inc. v. FCC*, Nos. 00-511, 00-555 et al., 2001 WL 881216, at *6 (U.S. July 23, 2001) ("The costs measured by TELRIC are nonetheless those *of the incumbent itself.*") ("*FCC Reply Brief*") (emphasis added).

costs rather than Verizon's own, is therefore legally improper. In addition, because Verizon's accounting and billing systems are incompatible with BellSouth's, Verizon *could not* use BellSouth's cost model or rate structure without incurring massive retrofitting costs. Finally, AT&T's proposal that the Commission by regulatory fiat transform Verizon's Florida operations into a miniature version of BellSouth should be rejected for the following policy reasons: (1) it would *de*-standardize Florida from the rest of Verizon's footprint, which is contrary to what the CLECs have been arguing for in numerous other forums; (2) it would impose on Verizon the unreasonable burden of developing and supporting a Florida-only cost model; and (3) it would deny Verizon the flexibility required to take advantage of advances in cost modeling and to respond to regulatory and technical changes.[3/] Verizon previously pointed out many of these problems in comments filed in the Commission's undocketed Standardization Workshop.[4/]

With respect to Verizon's proposed rates, the parties had only minor criticisms of a small number of discrete inputs. In some cases, Verizon revised its cost study to address these concerns. As we discuss below, the remaining criticisms are meritless. The Commission therefore should adopt the terms and conditions of Verizon's currently effective intrastate collocation tariff, as amended on February 20, 2004, to comply with the Commission's Order Granting Variance (Order No. PSC-04-0105-PAA-TP (Jan. 29, 2004)), and the rates proposed in Verizon's Revised Expanded Interconnection Services Cost Study (Composite Exhibit 47 (BKE-1)).

[3/] *See* 1/29/04 Tr. at 704 (Bailey & Ellis). In addition, such a decision likely would not survive judicial review. *See id.*; *see also* note 2, *supra*.

[4/] *See* Composite Exhibit 48 (BKE-8 & BKE-9).

II. Verizon's Positions on Specific Issues

Issue 9A: For which collocation elements should rates be set for each ILEC?

Verizon's Position: ** Rates should be set for Verizon for the collocation elements proposed in Verizon's Revised Expanded Interconnection Services Cost Study (Composite Exhibit 47 (BKE-1)). Verizon takes no position on which collocation elements should be assigned rates for BellSouth or Sprint. **

A. The Commission should reject AT&T's proposal to ignore Verizon's business practices and instead force Verizon to adopt BellSouth's collocation provisioning, accounting, and cost recovery methods.

Contrary to AT&T's representations, AT&T's "unified cost model" proposal is much broader than using the "BellSouth Cost Calculator" to derive Verizon's and Sprint's collocation rates.[5/] In reality, AT&T's proposal would force Verizon's and Sprint's Florida systems and operations to become carbon copies of BellSouth's. Indeed, the "BellSouth Cost Calculator" is not a "model" the way AT&T would have the Commission believe, with algorithms and other generic assumptions designed to produce appropriate rates for any given set of inputs. Rather, it is a series of spreadsheets that use BellSouth-specific inputs to produce BellSouth-specific costs.[6/] Thus, AT&T's claim that the Commission should adopt one "unified model" and then make it ILEC-specific is misleading; AT&T is really asking the Commission to *ignore* what Verizon has filed and simply impose on it BellSouth's collocation costs and rate structure — and thus BellSouth's collocation provisioning, accounting, and cost recovery methods.

Apart from AT&T witness Turner, the expert witnesses are unanimous that AT&T's proposal is a bad idea. As Verizon witnesses Bailey and Ellis explained, there

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5/ *See* 1/29/04 Tr. at 703 (Bailey & Ellis).

6/ *See id.* (Bailey & Ellis).

are seven different reasons why the Commission should not impose the BellSouth "model" on Verizon.

First, BellSouth uses accounting and cost input data that are not available to Verizon. For example, BellSouth uses Telephone Plant Indices ("TPIs"), which were developed by BellSouth consultants, specifically for BellSouth's use, to estimate changes in materials prices and installed investments. This BellSouth-specific cost information is used in a complex econometric model to provide the cost data required to develop appropriate collocation rates. Verizon does not have access to this or other BellSouth data, and does not maintain its own functionally equivalent data in the same formats. Rather, Verizon uses its own proprietary databases, such as the GTE Advanced Materials System ("GTEAMS"), to track its accounts and costs.[7/] Creating entirely new databases just for Florida, so that Verizon could match its costs up to the BellSouth model, obviously would be costly and inefficient.

Second, the manner in which BellSouth recovers its costs between UNEs and collocation is inconsistent with the manner in which Verizon recovers similar costs. For example, BellSouth includes in its collocation model all of the costs it incurs in taking and provisioning cross-connect orders, whereas Verizon includes such costs in its wholesale nonrecurring model.[8/] Forcing Verizon to mirror BellSouth by including these costs in the collocation rates would therefore mean that Verizon would double-recover some costs, while not recovering others at all.

Third, even for those costs that both companies recover in collocation rate elements, Verizon bills for the facilities and services it provides differently than does

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7/ *Id.* at 706-08 (Bailey & Ellis).

8/ *Id.* at 706, 709 (Bailey & Ellis).

BellSouth. For example, while Verizon identifies overhead superstructure (*i.e.*, cable racking) costs as a distinct rate element, BellSouth includes cable racking costs within its Common System Modifications rate elements, H.1.42 (Cageless) and H.1.43 (Caged), which also contain additional costs such as HVAC and electrical costs. Likewise, Verizon recovers cage enclosure costs through nonrecurring charges, while BellSouth recovers the same costs through monthly recurring charges.[9/] Moreover, because BellSouth's charges are tracked and billed by specific BellSouth accounting and billing systems, aligning Verizon's rate structure with BellSouth's would require Verizon to modify its provisioning, accounting, and billing systems to mirror BellSouth's.[10/]

Fourth, the companies physically provision collocation differently, and the different activities lead to different costs, which are then often properly recovered in different rate elements. For example, there are two major differences in the way Verizon and BellSouth provision cage enclosures that account, in part, for the rate structure discrepancies between the two companies. First, in order to limit stranded investment and thus minimize total costs, Verizon builds each cage to order, while BellSouth often builds a number of additional cages (to meet anticipated future demand) at the same time it builds the first one for the central office. Second, because it builds cages to order, Verizon is able to offer CLECs more cage size options than BellSouth, which builds cages only in the 100 square foot size and 50 square foot larger increments.[11/]

9/ *Id.* at 706-07, 710 (Bailey & Ellis).

10/ *Id.* (Bailey & Ellis).

11/ *Id.* at 707, 712-13, 740 (Bailey & Ellis).

Fifth, BellSouth offers CLECs certain facilities and services that Verizon does not. For example, Verizon expects CLECs to keep track of their own collocation cable records and thus does not maintain such records with the same degree of precision as BellSouth. As a result, Verizon cannot provide the same cable record service to the CLECs that BellSouth offers. Indeed, it would be a tremendous undertaking for Verizon to gather and maintain the information necessary to provide the same type of collocation cable records as BellSouth, which already has in place the systems containing historical data. Requiring Verizon to implement these same services on BellSouth's terms would require significant and costly database and billing system changes, as well as changes to Verizon's operations.[12/]

Sixth, Verizon provides CLECs with a number of facilities and services that BellSouth simply does not offer. For example, Verizon provides and installs cross-connect facilities and power cables.[13/] BellSouth, on the other hand, requires collocators to provide, install, and terminate their own power cables and cross-connects. Verizon also offers microwave collocation elements, while BellSouth does not.[14/] Adopting AT&T's proposal would therefore force Verizon to withdraw these services and change its tariffs and interconnection agreements — a result that many CLECs may oppose.

Seventh, and most importantly, even if the Commission could figure out a way to standardize ILEC provisioning methods, costs, and rate structures, which is unlikely for the reasons explained above, the transition to the BellSouth rate structure would result in significant practical difficulties, especially in those cases where Verizon currently

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12/ *Id.* at 707, 713 (Bailey & Ellis).

13/ The CLEC may also choose to provide the power cables.

14/ 1/29/04 Tr. at 707, 715 (Bailey & Ellis).

recovers through nonrecurring charges costs that BellSouth recovers through recurring charges. For example, Verizon's cage enclosure and overhead superstructure rate elements do not line up neatly with BellSouth's. In those situations, simply eliminating the MRC without making any other adjustments would result in underrecovery or overrecovery of Verizon's costs. Similarly, creating the software or manual procedures necessary to transform what once was a nonrecurring charge into a recurring charge would be a logistical nightmare. And, of course, Verizon (and the CLECs) would expend considerable resources to track these differences through their significantly modified billing systems.[15/] Indeed, the changes that would be required to Verizon's billing systems alone could cost over $1 million.[16/] To force Verizon to expend such resources in order to *de*-standardize Florida from the footprint-wide Verizon billing systems simply makes no sense.

Sprint's witnesses agreed with Mr. Bailey and Ms. Ellis that AT&T's proposal is unworkable. Sprint witness Farrar explained that it "would be extremely difficult, and counter-productive," for Sprint and Verizon to be forced to use BellSouth's Cost Calculator,[17/] in large part because that cost model "is simply not compatible" with Sprint's or Verizon's accounting systems.[18/] Mr. Farrar further explained that forcing Verizon and Sprint to use BellSouth's "model" in Florida would "not create any efficiencies for the ALECs," which would still have to "deal with multiple companies and multiple ILECs in states other than Florida."[19/] Mr. Farrar also noted that "it's just not physically possible" for Sprint "to dedicate a group of our staff to become familiar [with]

15/ *Id.* at 711-12 (Bailey & Ellis).

16/ *Id.* at 704-05, 712 (Bailey & Ellis).

17/ 1/28/04 Tr. at 504 (Farrar).

18/ *Id.* at 508 (Farrar).

19/ *Id.* at 504 (Farrar).

and to develop an expertise in a new cost model just for collocation rates, just in Florida."[20/]

Sprint witness Davis similarly explained that Mr. Turner's asserted basis for the AT&T proposal — that the use of company-specific cost models makes it "almost impossible" to compare collocation costs among the ILECs — is simply wrong. Indeed, Mr. Davis testified that Sprint "routinely analyzes collocation costs of various ILECs in multiple states."[21/]

As these two Sprint witnesses make clear, there is an enormous difference between *analyzing* a cost model as a CLEC and *developing* and *supporting* a cost model as an ILEC — particularly when doing so would require the ILEC to retrofit its accounting and billing systems to the cost model.

BellSouth witness Shell concurred with the Sprint and Verizon witnesses on these points, even though it is the BellSouth model that AT&T seeks to foist on Sprint and Verizon. Specifically, Mr. Shell explained that "BellSouth does not support the use of a single cost model."[22/] He recognized that "Sprint/Verizon data feeds would likely need to be altered or scrapped entirely to generate the inputs required by the [BellSouth Cost Calculator]."[23/] He further explained:

> [Mr. Turner's] statement that a single cost model can readily be used by all three ILECs is not true. It would cost more and require more time to perform studies if all three ILECs were required to use a single model. Simply put, Mr. Turner's proposal for a single model would cause the ILECs

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20/ *Id.* at 506 (Farrar).

21/ 1/28/04 Tr. at 423 (Davis).

22/ 1/28/04 Tr. at 299 (Shell).

23/ *Id.* at 249 (Shell).

> to spend more time, incur more costs with no real effect on the resulting cost numbers.[24/]

Likewise, Staff witness Gabel urged the Commission to reject AT&T's proposal, because, among other things, any efficiency gains in the evaluation of the three ILECs' costs would be miniscule compared to the huge costs Verizon and Sprint would incur to retrofit their accounting and billing systems. In response to Commissioner Deason's inquiry at the hearing of whether he has "any position on the AT&T proposal that there should be one unified cost model,"[25/] Dr. Gabel explained:

> Yes. And I'm going to respond to two different levels. The first is Mr. Turner has recommended that if you were to select one model as the standard model, that you select the BellSouth model. I spent a significant number of hours reviewing all three models, and I found the BellSouth model the most difficult to work with. So I would put it at the bottom of the list, not at the top of the list, if you were to make a selection. I found it much easier to work with both the Verizon and Sprint models. But that begs the question, should you adopt the single model?
>
> In my testimony what I tried to do is compare inputs across companies. And I found it extremely difficult to do it because the information systems in the different companies are different and consequently -- and also the building elements are different, and consequently, it's difficult to make comparisons across companies. And I wasn't surprised to find that because I'm cognizant of efforts made by the FCC and many state commissions to adopt a uniform cost model. And in all cases for which I have knowledge of, a major stumbling block is how do you get information from one company to fit into the cost model that was developed by some other party? And that's always been a major impediment. So even though conceptually I think Mr. Turner is right that it would be wonderful if we had one model which all parties can agree, my experience in reviewing the three models is that it's a big challenge to figure out how to get the inputs from one company to fit into the cost model of another

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24/ *Id.* at 299 (Shell).

25/ 1/29/04 Tr. at 898 (Commissioner Deason).

> company. And based upon what I have seen in reviewing the three models here in Florida, that's a big challenge.
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> And I guess my concluding statement on this issue is that these cost models are not complicated. They are essentially taking a time estimate, multiplying it by a labor rate, and then converting that through different loadings to a monthly or nonrecurring rate. I find it as a cost analyst that it would be easier just to review the spreadsheets, which as I mentioned in response to Verizon's testimony and I've now said is also the case with Sprint, it's easy to see how data flows through those spreadsheets. And I don't think time would be well spent in this instance in Florida with the three models that you have before you to compel the companies to use the same model.[26/]

Staff's witness therefore agrees with Verizon, Sprint, and BellSouth that AT&T's "unified model" proposal should be rejected.

Finally, hidden away in the subtext of AT&T's "unified model" proposal is its attempt to have this Commission force BellSouth's *inputs* (as modified by AT&T, of course) on Verizon. Indeed, AT&T admitted in its response to Verizon Interrogatory No. 25 that, except for cost of capital and the common cost factor, AT&T used *all* of BellSouth's inputs (as reduced by AT&T witness Turner) as the basis for developing its schedule of recommended "Verizon-specific" rates. AT&T thus seeks to put Verizon (and Sprint) in the untenable position of attempting to defend BellSouth's proposed rates as well as their own. Moreover, in many cases, Mr. Turner proposes that BellSouth's rates be reduced because of certain alleged problems with BellSouth's costs, and that these reduced rates should then be applied to Verizon and Sprint. In attacking BellSouth's rates in this manner, Mr. Turner seeks to penalize not just BellSouth, but also Verizon and Sprint, by imposing his recommended cost reductions on them as well as BellSouth. Even if there were merit to Mr. Turner's attacks on

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[26/] 1/29/04 Tr. at 898-99 (Gabel).

BellSouth's cost support, which is not the case, Verizon certainly should not be punished for BellSouth's alleged failure to support its own costs.[27] Doing so would clearly deprive Verizon of its due process rights in this proceeding.

No state has ever "standardized" ILEC cost models,[28] and Florida should not do so in this proceeding. As Commissioner Deason has recognized in considering the "standardization" of UNE cost models, carriers have "certain systems that are consistent . . . with the overall way they have their computer systems, information systems, and other [systems] set up . . . [and] to impose a particular model on them would be burdensome and costly."[29] The evidence and expert opinion presented in this case overwhelmingly validate Commissioner Deason's understanding — imposing the BellSouth Cost Calculator on Verizon and Sprint would be too burdensome and too costly to justify the dubious benefits of using it. Unlike Mr. Turner, who apparently chose not to spend much time reviewing Verizon's specific cost proposals, the Commission must address Verizon's proposals on the merits.[30] As we show below, Verizon's proposals are TELRIC-based and well documented, and should therefore be adopted.

B. The Commission should affirm its Phase I ruling that ILECs may, but are not required to, allow CLECs to contract directly with ILEC-approved vendors to pull and terminate power and cross-connect cables.

In its *Phase I Order*, the Commission found that CLECs should be allowed to perform or subcontract installation work within their collocation space, but that CLECs

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27/ *See* 1/29/04 Tr. at 719-24 (Bailey & Ellis).

28/ *See* Composite Exhibit 48 (BKE-9 at 7); Verizon Responses to Staff Interrogatories 221-223; Sprint Responses to Staff Interrogatories 51-53.

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

30/ *See Local Competition Order* ¶ 685; *FCC Reply Brief*, 2001 WL 881216, at *6.

and their agents should be forbidden from performing work in the common areas of the central office.[31/] In response to Sprint's reconsideration motion, the Commission clarified that "parties should not be precluded from negotiating terms that would allow certified vendors to work outside the CLEC collocation areas."[32/] In other words, ILECs may, but are not required to, allow CLECs to contract directly with ILEC-approved vendors to pull and terminate power and facility cables.

The Commission's Phase I holding on this issue strikes an appropriate balance and should not be overturned in this phase of the proceeding. BellSouth *requires* CLECs to contract directly with BellSouth-approved vendors to provide and install CLEC cables.[33/] Presumably, this is because BellSouth uses vendors to pull and terminate BellSouth's own power and cross-connect cables. Verizon, on the other hand, generally uses its internal workforce to perform these activities for both its own cables and the CLECs', turning to vendors only when there is "a shortage" of Verizon employees to do

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[31/] Final Order, *Petition of Competitive Carriers for Commission action to support local competition in BellSouth Telecommunications, Inc.'s service territory; Petition of ACI Corp. d/b/a Accelerated Connections, Inc. for generic investigation to ensure that BellSouth Telecommunications, Inc., Sprint-Florida, Incorporated, and GTE Florida Incorporated comply with obligation to provide alternative local exchange carriers with flexible, timely, and cost-efficient physical collocation*, Docket Nos. 981834-TP & 990321-TP, Order No. PSC-03-1358-FOF-TP, at 14 (Nov. 26, 2003) ("*Phase I Order*").

[32/] Order Granting, in Part, and Denying, in Part, Motions for Reconsideration and/or Clarification, *Petition of Competitive Carriers for Commission action to support local competition in BellSouth Telecommunications, Inc.'s service territory; Petition of ACI Corp. d/b/a Accelerated Connections, Inc. for generic investigation to ensure that BellSouth Telecommunications, Inc., Sprint-Florida, Incorporated, and GTE Florida Incorporated comply with obligation to provide alternative local exchange carriers with flexible, timely, and cost-efficient physical collocation*, Docket Nos. 981834-TP & 990321-TP, Order No. PSC-04-0228-FOF-TP, at 6 (Mar. 2, 2004) ("*Phase I Reconsideration Order*").

[33/] *See id.* Sprint witness Davis testified at the Phase II hearing that Sprint will adopt this BellSouth practice. *See* 1/28/04 Tr. at 463-64 (Davis) (noting that Sprint will remove many collocation offerings and thus "will only retain the cost for cable racking, engineering and removal where applicable."). As Verizon has explained, the *engineering* of power and cross-connect cables is a core ILEC function that may not, consistent with FCC rules and precedent, be assigned to a CLEC. 1/29/04 Tr. at 716-17 nn.5-6 (Bailey & Ellis).

the work.[34] Both approaches represent reasonable business decisions, and there is no reason to force Verizon to replace its own business judgment with BellSouth's.

This is especially true because the proper installation of power and facility cables is crucial to network reliability and worker safety. As Verizon has explained, it alone "is ultimately responsible for its central offices, and it should be allowed to maintain direct responsibility for any work that could put at risk the safety of workers or reliability of the network outside the walls of an ALEC's cage."[35] Contrary to AT&T's suggestion, these risks would not be eliminated by requiring the CLECs to contract with the same vendors Verizon uses in a pinch; rather, there would be an increased risk of problems and a diffusion of accountability if and when that risk came to fruition:

> Consider the recent blackout across the Midwest and Northeast owing to neglect of the electric grid, which everybody owned so nobody owned. Specifically, ALECs might seek to negotiate with Verizon FL-certified vendors for reduced rates in exchange for less quality control. And there no longer would be one party clearly responsible for reacting to service outages or other damage caused by vendors.[36]

Moreover, eliminating Verizon's direct control over the installation of power and cross-connect cables in its central offices would negatively affect the current security and reliability of Verizon's network. Verizon "configured its central offices with the understanding that it would have direct responsibility for any cabling that could have system-wide impacts."[37] As a result, Verizon designed its central office layouts differently than it would have if it had been required to allow CLECs to contract directly with vendors to install cable. For example, Verizon "uses individual BDFBs to distribute

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[34] 1/29/04 Tr. at 772 (Bailey).

[35] 1/29/04 Tr. at 715 (Bailey & Ellis).

[36] *Id.* at 716 (Bailey & Ellis).

[37] *Id.* at 717 (Bailey & Ellis).

power to both ALECs' equipment and its own — a practice it would not have adopted if it did not have [direct responsibility for any cabling that could have system-wide impacts]."[38/] Instead, Verizon "would have placed ALEC-dedicated BDFBs to segregate their power from Verizon FL's own and thus protect Verizon FL's end users."[39/] Likewise, Verizon "has mixed ALEC and Verizon FL power feeds on its power distribution boards, rather than dedicating certain panels to ALEC use" because Verizon has direct control over power cable provisioning.[40/]

For all of these reasons, the Commission should affirm its Phase I ruling that ILECs may, but are not required to, allow CLECs to contract directly with ILEC-approved vendors to pull and terminate power and cross-connect cables. Should the Commission overrule that decision and require Verizon to allow CLECs to contract directly with Verizon-approved vendors to perform these activities, the Commission should at the very least impose the guidelines explained in Charles Bailey and Barbara Ellis's Surrebuttal Testimony to protect Verizon's network.[41/]

Issue 9B: For those collocation elements for which rates should be set, what is the proper rate and the appropriate application of those rates?

Verizon's Position: ** Rates should be set and applied for Verizon's collocation elements as set forth in Verizon's Revised Expanded Interconnection Services Cost Study (Composite Exhibit 47 (BKE-1)). Verizon takes no position on the appropriate rates for BellSouth's or Sprint's collocation elements. **

In setting rates for Verizon, the Commission should group Verizon's proposed rates into three categories: (1) proposals that were not challenged in this proceeding; (2) proposals that Verizon has corrected to address concerns raised in the course of

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38/ *Id.* (Bailey & Ellis).

39/ *Id.* (Bailey & Ellis).

40/ *Id.* (Bailey & Ellis).

41/ *See id.* at 718-19 (Bailey & Ellis).

this proceeding; and (3) proposals that have been challenged by other parties. The Verizon proposals that fall into the first and second categories clearly should be approved as proposed. The proposals in the third category also should be approved as proposed, for the reasons set forth below.

A. The Commission should adopt Verizon's unchallenged and corrected proposals.

Many of Verizon's proposals have not been challenged in this proceeding. Specifically, Verizon's proposed materials loading factor, loaded labor rates, and Single Source Provider rates are major components of Verizon's collocation cost study that have not been challenged. Nor has any party challenged Verizon's proposed rate elements specific to virtual collocation, microwave collocation, or adjacent on-site collocation.[42/]

In some cases, Verizon revised its cost study to address other parties' concerns, and these revisions went unchallenged. For example, to address Dr. Gabel's concern that Verizon was double-counting its cable vault investment in its floor space rates, Verizon eliminated from its revised filing the five "Cable Vault Space" rate elements it had originally proposed.[43/] Verizon also adjusted a number of the proposed elements it retained in response to other parties' concerns.

Verizon also revised its DC power cost study in response to questions raised by Staff and other parties. The revised study is based on current, Florida-specific data, and it addresses all of the concerns other parties had with Verizon's original study.[44/]

[42/] Some of the criticisms of Verizon's proposed physical collocation rate elements, addressed below, could also be considered applicable to a small number of proposed adjacent on-site rate elements.

[43/] *See* 1/29/04 Tr. at 759 (Ellis); Composite Exhibit 47 (BKE-1 at 39-41).

[44/] *See* Verizon Supplemental Response to Staff Interrogatory No. 229; 1/29/04 Tr. at 741-42 (Bailey & Ellis).

Verizon's proposed per amp rate of $19.43 represents a 24% reduction from its originally proposed per amp rate of $25.45. At the hearing, Mr. Curry acknowledged that all of his initial areas of concern regarding Verizon's DC power study — the EF&I factor, the installation ratio, and the cage grounding bar cost — had been appropriately addressed by Verizon's revised power study, except for Verizon's time estimates for pulling power cables, which he apparently believed Verizon had not adjusted in its revised study.[45/] But, as Verizon witnesses Bailey and Ellis explained in their Surrebuttal Testimony, Verizon's revised power study did adjust power cable pull times downward to reflect current, Florida-specific data.[46/] Thus, Verizon's revised power study incorporated all of the specific recommendations for improvement made by the other parties to this proceeding.[47/]

Verizon has supported all of these unchallenged and corrected proposals in the hundreds of pages of cost studies and supporting work papers and source data that it has filed in this proceeding. There is no countervailing evidence in the record on which the Commission could rely to reject any of these proposals. Therefore, the Commission must adopt all of the foregoing proposed factors and cost and rate elements.

B. The Commission should reject the other parties' erroneous criticisms of Verizon inputs.

Other parties to this proceeding have challenged a small number of Verizon inputs — namely, Verizon's proposed cost of capital, depreciation lives, DC power rate,

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45/ *See* 1/29/04 Tr. at 828 (Curry).

46/ 1/29/04 Tr. at 741-42 (Bailey & Ellis).

47/ Naturally, the CLECs still argue that Verizon's proposed per amp rate is not "low enough," but those CLECs do not point to any shortcomings specific to the study; rather, they just claim that the resulting rate is "too high." Verizon refutes this contention in Section B, below.

and other minor factors, estimates, and elements. As Verizon demonstrates below, these challenges are without merit and should be rejected by the Commission.

1. The Commission should approve Verizon's proposed cost of capital.

a. Verizon's proposed cost of capital is appropriate.

The Commission should adopt Verizon's proposed cost of capital inputs in calculating Verizon's collocation rates. Under existing TELRIC rules, the Commission must adopt a cost of capital that adequately accounts for the risks of a competitive market and the risks posed by the regulatory regime under which Verizon operates. The FCC most recently affirmed this principle in the *Triennial Review Order*, stating that "the cost of capital should reflect the risks of a competitive market" in which "all facilities-based carriers . . . face the risk of losing customers to other facilities-based carriers."[48/] In its merits brief before the U.S. Supreme Court in *Verizon v. FCC*, the FCC likewise argued that "an appropriate cost of capital determination takes into account not only existing competitive risk . . . , but also risks associated with the regulatory regime to which a firm is subject."[49/]

Verizon's proposed cost of capital appropriately accounts for these risks. As Verizon cost of capital witness Dr. Vander Weide explained in his testimony in this proceeding, Verizon's proposed cost of capital is 16.85%. That proposed return on capital is comprised of a 12.03% competitive market cost of capital, plus a 4.82% premium to account for the risk that Verizon will not have an opportunity to earn the 12.03% competitive market cost of capital. Verizon's calculation of these inputs is

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48/ Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, 18 FCC Rcd 16978 ¶ 681 (2003) ("*Triennial Review Order*").

49/ *FCC Reply Brief*, 2001 WL 881216, at *12 n.8.

based on reasonable methodologies that are widely accepted in the finance community. To calculate the competitive market cost of capital, Verizon employed the discounted cash flow "DCF" model, which is commonly used in the finance community to calculate a company's expected cost of equity. Because there are no companies whose sole business is providing collocation services to CLECs, it is necessary to use a proxy group of companies to estimate Verizon's cost of equity. Dr. Vander Weide used the S&P Industrials, a well-known sample of publicly traded competitive companies whose risk, on average, approximates the risk that ILECs actually face in providing telecommunications services in a competitive market. As Dr. Vander Weide explained in his testimony, it is essential to use a proxy group comprised of a large sample of companies that face considerable competition in order to approximate the risks that Verizon faces.[50/]

In estimating Verizon's capital structure and cost of debt, Dr. Vander Weide also used proxies that are accurate indicators for the overall rate of return that is required for Verizon. For the capital structure, Dr. Vander Weide examined capital structure data for both a proxy group of S&P Industrials and a group of telecommunications companies with ILEC subsidiaries. These data show that Verizon's proposed capital structure containing 25% debt and 75% equity is conservative. Thus, contrary to the assertions of AT&T witness Ms. Murray, the capital structures of Dr. Vander Weide's proxy group have not fluctuated "radically" with capital market conditions.[51/]

As required by TELRIC, Verizon's proposed capital structure is purely a market-based capital structure. This is an important point: A capital structure based in any part

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50/ *See* 1/28/04 Tr. at 92-93 (Vander Weide).

51/ *See* 1/28/04 Tr. at 177 (Murray).

on book value would not be appropriately forward-looking, because book values reflect historical conditions rather than the current expectations of investors. Regarding the cost of debt, Dr. Vander Weide used the average yield to maturity on Moody's A-rated industrial bonds, 6.26% at the time of his studies.[52/]

In addition to the competitive market cost of capital, Dr. Vander Weide calculated a risk premium that must, under TELRIC, be added to the competitive market cost of capital. As Dr. Vander Weide explained, the risk premium is needed to ensure that Verizon will actually have an opportunity to earn the 12.03% competitive market cost of capital under a regulatory regime that gives the ALECs the option of canceling their leases on a monthly basis or renewing their leases at lower rates before Verizon has recovered its investment in collocation facilities.[53/] The ALECs' ability to cancel substantially increases the risk that Verizon's collocation revenues will be less than they were anticipated to be when collocation rates were set. As Dr. Vander Weide explained, in Florida, two-thirds of the customers for which Verizon had built collocation facilities have already cancelled their collocation arrangements.[54/] Thus, the risk of investing in the facilities required to provide collocation under the TELRIC standard is substantially greater than the risk of investing in the average competitive company.[55/] Dr. Vander Weide's quantification of these risks demonstrates that a premium of 4.82% is needed to ensure that Verizon will have the opportunity to earn a 12.03% rate of

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52/ *See* Composite Exhibit 29 (JVW-1).

53/ *See* 1/28/04 Tr. at 67-68 (Vander Weide).

54/ *See id.* at 121 (Vander Weide).

55/ *See id.* at 71 (Vander Weide).

return, or alternatively, to account for the risk that Verizon will *not* have the opportunity to earn that rate of return.[56/]

b. AT&T's proposed cost of capital is incorrect.

In contrast to Verizon's proposal, AT&T has proposed that the Commission adopt the 9.63% cost of capital that it recently ordered in setting Verizon's UNE rates. This cost of capital would violate TELRIC, fail to compensate Verizon for the risks it faces in providing collocation to CLECs, and send incorrect economic signals to market participants. AT&T did not present any evidence with its proposal, but merely noted that 9.63% was the cost of capital proposed by the PSC Staff in the Verizon UNE proceeding.

This proposed cost of capital fails on several accounts. First, AT&T's proposal violates the principle, most recently clarified by the FCC in the *Triennial Review Order*, that the cost of capital must assume a competitive market. The 9.63% cost of capital adopted by the Commission and proposed by AT&T was based on a set of telecommunications holding companies that face significantly less risk than a provider of collocation facilities under TELRIC. In addition, AT&T's proposed cost of capital fails to recognize that UNE rates must be based on forward-looking economic costs rather than embedded, historical, or accounting costs.[57/] The PSC Staff's recommendation in the UNE proceeding was based on a book value capital structure containing 40% debt and 60% equity that undoubtedly reflects embedded, historical, and accounting costs.

Only in *surrebuttal* testimony did AT&T provide any analysis in defense of its proposal, and even that only served to demonstrate precisely how AT&T's proposal

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56/ *See id.* at 73-87 (Vander Weide) (explaining methodology by which Dr. Vander Weide calculated the risk premium).

57/ *See Local Competition Order* ¶ 632.

violates TELRIC. AT&T's cost of capital witness Ms. Murray presented an analysis purportedly based on the FCC's Wireline Competition Bureau's *Virginia Arbitration Order*.[58/] However, Ms. Murray fails to mention that the Bureau calculated a weighted average cost of capital of 13.068% based on a 7.86% cost of debt, a 14.37% cost of equity, and a capital structure containing 20% debt and 80% equity. Ms. Murray likewise fails to mention that the Bureau rejected AT&T's proposed mixed market/book value capital structure — similar to that which AT&T proposed in this proceeding — and accepted a capital structure with even more equity than that proposed by Verizon.[59/] In addition, the Bureau noted that AT&T itself used an overall weighted average cost of capital of 15.31% for investment in its own network.[60/]

c. Staff's proposed cost of capital is likewise incorrect.

The cost of capital proposed by Staff does not adequately reflect the risks of a competitive market or the regulatory risks faced by Verizon.

As an initial matter, Mr. Lester, Staff's cost of capital witness, correctly recognizes that TELRIC requires the assumption of a competitive market.[61/] Mr. Lester further recognizes that Verizon faces significant risk in providing collocation, and that this includes the risk posed by alternative service providers such as wireless, cable telephony, and Internet services.[62/] He also correctly recognizes that competitive companies base their cost of capital estimates on market value rather than book value

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58/ Memorandum Opinion and Order, *Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc. and for Expedited Arbitration, et al.*, 18 FCC Rcd 17722 ¶¶ 90-91 (2003) ("*Virginia Arbitration Order*").

59/ *Id.* ¶ 102.

60/ *Id.* ¶ 93 n.268.

61/ *See* 1/28/04 Tr. at 219 (Lester).

62/ *See id.* (Lester).

capital structures, and that the 40% debt, 60% equity capital structure used to set the 9.63% cost of capital in the UNE proceeding is inconsistent with TELRIC. On these points, Verizon and Staff are in agreement.

As Dr. Vander Weide explained in his surrebuttal testimony, however, Mr. Lester's calculation of Verizon's cost of capital contains errors, which, when corrected, produce a competitive market cost of capital of 12.33%.[63/] First, when using the DCF model to calculate the cost of equity, Mr. Lester incorrectly estimated the growth component by averaging the dividend and earning growth estimates for his proxy companies. As Dr. Vander Weide explained, however, the forecasted *earnings* growth rate for Mr. Lester's proxy group is a better estimate of long-run dividend growth than the forecasted *dividend* growth rate.[64/] This is because the dividend growth forecast is based on the assumption that the average company in the proxy group is moving toward a lower target dividend payout ratio. As Dr. Vander Weide demonstrated, once that new target dividend payout ratio is achieved, however, dividends must grow at the same rate as earnings.[65/] Second, although Mr. Lester agrees with Verizon that the capital structure must be market-based to comply with TELRIC, his capital structure includes approximately 5% more debt than would an appropriately market-based capital structure. Correction of these errors, as Dr. Vander Weide explained, would produce a competitive market cost of capital of 12.33%.

Finally, both AT&T and Staff fail to provide a convincing argument that Verizon's proposed risk premium should not be adopted. As explained above and in Dr. Vander Weide's testimony, the risk premium is *required* in order to allow Verizon a chance to

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63/ *See* 1/28/04 Tr. at 119 (Vander Weide).

64/ *See id.* at 111 (Vander Weide).

65/ *See id.* (Vander Weide).

earn the competitive market cost of capital, or stated differently, to account for the risk that Verizon will not have the chance to earn the market rate of return. Collocation cost studies are based on the assumption that collocation rates will be sufficient to allow Verizon to recover all variable and fixed costs of providing collocation services and to earn a fair rate of return on its collocation investments. But, in reality, Verizon will be unable to fully recover these costs due to various regulatory requirements, including the requirement that Verizon provide collocation pursuant to leases that can be cancelled on one month's notice.[66] The Commission should therefore adopt Verizon's proposed risk premium as well as its proposed competitive market cost of capital.

2. The Commission should adopt Verizon's proposed depreciation inputs.

The Commission should calculate collocation depreciation expense based on the economic depreciation lives Verizon uses in its financial reports,[67] which are developed pursuant to Generally Accepted Accounting Principles ("GAAP").[68] GAAP depreciation lives provide a sound and realistic estimate of the forward-looking "anticipated economic life of assets"[69] — that is, the expected time period, looking forward, during which assets can be expected to produce economic benefit.[70] GAAP lives take into account

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66/ *See id.* at 119-21 (Vander Weide).

67/ As Verizon has explained, only seven accounts were used in Verizon's collocation cost study: 1) Land, 2) Buildings, 3) Digital Electronic Switching, 4) Circuit Equipment, 5) Underground Cable — Metallic, 6) Underground Cable — Fiber, and 7) Conduit Systems. *See* 1/28/04 Tr. at 146 (Sovereign) (citing Verizon Responses to Staff's Fifth Set of Interrogatories, Nos. 91, 92). While all of Verizon's depreciation lives were developed pursuant to GAAP, the Commission need only address these seven accounts.

68/ *See* 1/28/04 Tr. at 128-29 (Sovereign); Exhibit 20 at 17:9-25. Mr. Sovereign's direct and surrebuttal testimony in this proceeding was later adopted by Anthony J. Flesch. *See* Exhibit 20 at 11:10-12:21.

69/ Notice of Proposed Rulemaking, *Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers*, WC Docket No. 03-173, ¶ 99 (2003).

70/ 1/28/04 Tr. at 131 (Sovereign).

the factors that shorten the useful lives of the telecommunications assets used in collocation cost studies — primarily, the pace of technological innovation and the impact of competition.[71] Verizon assesses the impact of these factors using investment and salvage data, as well as its informed expert judgment.[72] To ensure that its GAAP lives are up to date, Verizon reassesses them on an annual basis, or even more often if necessary.[73] Because they are included in Verizon's financial reports, Verizon's proposed depreciation lives must be reviewed and approved by its external auditors before being submitted to the Securities and Exchange Commission and other government entities.[74] Thus, Verizon's proposed GAAP lives are inherently forward-looking and reliable.

Given the speed of technological change in telecommunications, as well as growing competition from several sources, the use of GAAP to determine the depreciable lives for telecommunications assets is particularly appropriate. Rapidly evolving alternative technologies, such as wireless and Voice-over Internet Protocol telephony, permit customers and competitors to bypass the local loop entirely. Furthermore, competition continues to develop significantly in Florida, as the Commission and the Division of Policy Analysis and Intergovernmental Liaison each determined several years ago.[75] Currently, approximately 400 CLECs provide local exchange service in the state.[76] GAAP lives account for and keep pace with such

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[71] *Id.* at 133-34 (Sovereign); *Triennial Review Order* ¶ 685 (stating that it is generally agreed that "depreciation should reflect any factors that would cause a decline in asset values, such as competition or advances in technology").

[72] Exhibit 20 at 13:12-20, 25:25-26:9.

[73] *Id.* at 14:11-17, 14:22-15:5.

[74] *Id.* at 14:15-16.

[75] 1/28/04 Tr. at 135-36 (Sovereign).

[76] *Id.* at 134-35 (Sovereign).

technological and competitive developments, and accordingly represent the best option for use in calculating depreciation expense in connection with collocation.

The lives adopted by Verizon's competitors and those forecast in industry studies confirm the reasonableness of the GAAP lives used by Verizon in its collocation cost study. Verizon "benchmarked" its proposed depreciation lives against those of other industry players including AT&T, WorldCom, and cable companies, as well as the depreciation lives developed by Technology Futures Inc.[77] These comparisons, which generally are based on the same types of equipment,[78] reveal that Verizon's proposed depreciation lives are equal to or longer than those used by its competitors.[79] This process of benchmarking — endorsed by Staff witness Lee[80] and other state commissions[81] — underscores the reliability and reasonableness of Verizon's depreciation inputs.

Numerous state commissions have endorsed the use of GAAP depreciation lives in UNE cost studies.[82] For example, public service commissions in California,[83] the

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77/ *See id.* at 139-43 (Sovereign); Exhibit 20 at 16:5-17:3, 21:17-22:12, 24:13-14.

78/ *See* 1/28/04 Tr. at 148 (Sovereign) (citing Verizon Response to Staff Interrogatory No. 82).

79/ *See id.* at 140-43 (Sovereign); Composite Exhibit 30 (AES-2); *see also, e.g.*, Exhibit 20 at 16:25-17:3 (noting that Verizon's proposed depreciation lives for buildings is 20-50 years, compared to 10-40 years for AT&T).

80/ *See* 1/28/04 Tr. at 197-98 (Lee).

81/ *See* Final Arbitration Order, *AT&T Communications of the Southwest, Inc.'s Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement Between AT&T Communications of the Southwest, Inc. and GTE Midwest Inc.*, Case No. TO-97-63, Attachment C, at 77 (Mo. PSC July 31, 1997) ("*Missouri Order*") (concluding that "benchmarking GTE's TELRIC rates against those booked for financial purposes of likely competitors and other companies using similar technologies is appropriate and is the best method to determine if GTE's TELRIC rates pass the muster of reasonableness").

82/ *See* 1/28/04 Tr. at 129-31 (Sovereign).

83/ Decision 96-08-021, *Open Access to Bottleneck Services and a Framework for Network Architecture Development of Dominant Carrier Networks*, Rulemaking No. 93-04-003, at 77 (Cal. PUC Aug. 2, 1996) (concluding that rates based on GAAP lives "appear realistic for a firm having to operate in a competitive environment").

District of Columbia,[84] Indiana,[85] Michigan,[86] and Missouri[87] all have adopted GAAP lives for UNE studies. And in cases under section 271 of the Telecommunications Act of 1996, the FCC approved the use of GAAP lives by SBC (in Kansas and Oklahoma) and by Verizon (in Pennsylvania).[88]

Most recently, the Indiana Utility Regulatory Commission found that the use of GAAP lives in UNE cost studies "is more appropriate . . . in light of TELRIC and the overall goals of the 1996 Act."[89] As the Indiana Commission explained:

> Technological advancement continues at a rapid pace, leading to faster obsolescence of all types of telecommunications equipment. If anything, the pace of technological advancements should only increase as unbundling and pricing determinations are brought more in line with the goals of the 1996 Act in the wake of the 1999 Biennial Order, the Triennial Review Order, and the TELRIC NPRM, and as the incentive for facilities-based investment and innovation increases.[90]

The Indiana Commission found that using GAAP lives would provide an incentive to use these rapidly developing new technologies: "We want to encourage [the ILEC] to take

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84/ Opinion and Order, *Implementation of the District of Columbia Telecommunications Competition Act of 1996 and Implementation of the Telecommunications Act of 1996*, Formal Case No. 962, ¶¶ 333-34 (D.C. PSC Dec. 6, 2002) (deeming GAAP lives "TELRIC-compliant").

85/ Order, *Commission Investigation and Generic Proceeding of Rates and Unbundled Network Elements and Collocation for Indiana Bell Telephone Company, Inc. d/b/a SBC Indiana Pursuant to the Telecommunications Act of 1996 and Related Indiana Statutes*, Cause No. 42393, at 62 (Ind. URC Jan. 5, 2004) ("*Indiana Depreciation Order*").

86/ Opinion and Order, *Commission's Own Motion To Consider The Total Service Long Run Incremental Costs And To Determine The Prices Of Unbundled Network Elements, Interconnection Services, Resold Services And Basic Local Exchange Services For GTE North,* Case No. U-11281, at 8 (Mich. PSC Feb. 25, 1998).

87/ *Missouri Order*, Attachment C at 77.

88/ Memorandum Opinion and Order, *Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region, InterLATA Services in Kansas and Oklahoma*, 16 FCC Rcd 6237 ¶ 76 (2001); *see also* Reply Declaration of Daniel J. Whelan and Gary E. Sanford, *Application by Verizon Pennsylvania Inc. et al. for Authorization to Provide In-Region, InterLATA Services in Pennsylvania*, FCC 01-269 CC Docket No. 01-138, at 16-18 (Aug. 2001).

89/ *Indiana Depreciation Order* at 67.

90/ *Id.*

advantage of and deploy technological advancements, and one way to do that is to allow it to use reasonable depreciation lives based on criteria [employed] for financial reporting purposes."[91/] Further, the Indiana Commission concluded that "the increase in competition faced by [ILECs], both intermodal and intramodal, compels use of shorter depreciation lives."[92/]

This reasoning applies with equal force in Florida, where competition and technology are rapidly advancing. Accordingly, the Commission should use Verizon's proposed depreciation inputs in calculating Verizon's collocation rates.

3. The Commission should approve Verizon's proposed DC power rate.

As explained in Section A, above, Verizon's revised DC power study makes all of the corrections recommended by Staff witness Curry. The CLECs' arguments regarding Verizon's proposed DC power infrastructure and AC power costs can be boiled down to one claim: Because Verizon's proposed DC power rate is higher than BellSouth's proposed rate, Verizon's proposal must be wrong.[93/] In the first place, for the reasons discussed above, it is improper to impose BellSouth's claimed power costs on Verizon.

Moreover, the Commission should reject the CLEC criticisms of Verizon's power infrastructure and electricity costs because they are without merit. As Verizon explains below, its proposed rates accurately reflect the costs that Verizon can expect to incur to

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91/ *Id.* at 68.

92/ *Id.* (citing *Triennial Review Order* ¶ 685).

93/ Of course, the CLECs then spent pages and pages in their prefiled testimony, *see* 1/28/04 Tr. at 546-61 (Turner), and hours in cross-examination at the hearing, *see* 1/28/04 Tr. at 307-93 (Shell), seeking to undermine BellSouth's proposed power costs. According to AT&T witness Turner, BellSouth's DC power cost study is "deeply flawed." *See* 1/28/04 Tr. at 636 (Turner). And yet those same CLECs are seeking to apply this study to Verizon. As explained above, the CLECs' attempt to impose BellSouth's costs on Verizon is inappropriate and would violate Verizon's due process rights.

provide and maintain the infrastructure and electricity necessary to provide DC power to collocators.

a. Verizon's proposed DC power infrastructure costs are accurate.

The CLECs' argument that BellSouth's proposed infrastructure costs show Verizon's proposed costs to be too high is wrong. As Verizon witnesses Bailey and Ellis explained in their Surrebuttal Testimony, BellSouth's proposed infrastructure costs appear much lower than Verizon's (or Sprint's) *because BellSouth incorrectly omitted emergency back-up generator costs.*[94/] By basing its DC power cost study on power *augments*, BellSouth looked only at the cost of adding additional capacity to power plants that already had emergency generators installed. Thus, in all but one of the 711 jobs comprising BellSouth's study, "there appear to be absolutely no materials or installation costs associated with the back-up generator."[95/]

The costs of purchasing, engineering, and installing a back-up generator are significant. Indeed, as Verizon witnesses Bailey and Ellis explained, these costs amount to *over half* of the infrastructure costs of the entire power plant.[96/] Thus, it is not surprising that when the portion of BellSouth's proposed monthly power rate earmarked for infrastructure recovery is *doubled*, the resulting figure falls between Verizon's and Sprint's proposals, just a dollar or two away from each.[97/]

Because the CLECs have failed to challenge on the merits any of Verizon's specific infrastructure costs, Verizon's proposals should be adopted. Verizon's revised

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94/ 1/29/04 Tr. at 721-23 (Bailey & Ellis).

95/ *Id.* at 723 (Bailey & Ellis).

96/ *Id.* (Bailey & Ellis).

97/ *See* 1/28/04 Tr. at 632 (Turner).

DC power study properly relies on current, Florida-specific data to produce the full costs of providing DC power to collocators that Verizon can expect to incur going forward.[98/]

b. Verizon's proposed AC utility costs are accurate.

AT&T witness Turner has accused BellSouth of overstating its AC utility costs. According to Mr. Turner, the ILECs should be assigned AC utility costs based on industrial user rates.[99/] But Mr. Turner can point to no evidence that the ILECs pay, or even qualify for, those rates. Indeed, Mr. Turner appears to have no understanding at all of Florida electric utility tariffing requirements.[100/] Contrary to his contentions, AT&T's own Florida AC utility rates closely mirror Verizon's (and BellSouth's) proposals.[101/] Thus, the Commission should approve Verizon's proposed AC utility cost element of $0.0717 per kilowatt hour, which reflects the electricity rates that Verizon actually pays in Florida.

4. The Commission should reject the other parties' remaining criticisms of Verizon's proposals.

The remaining criticisms of Verizon's collocation cost study are without merit for the reasons explained below.

a. Fill factor

In its cost study, Verizon estimates that an average of four CLECs will be collocated in each central office with at least one collocator. This "fill factor" estimate is then used in the development of Verizon's proposed space report, building modification, and security rates. Citing data from the year 2000 — at the height of the

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98/ *See* Verizon Supplemental Response to Staff Interrogatory No. 229; 1/29/04 Tr. at 741-42 (Bailey & Ellis).

99/ *See* 1/28/04 Tr. at 555-56 (Turner).

100/ *See id.* at 595-97 (Turner).

101/ 1/29/04 Tr. at 744-45 (Bailey & Ellis) (citing AT&T response to Verizon Interrogatory 8(g)).

telecommunications bubble — Staff witness Gabel argued that Verizon's fill factor should be increased to approximately nine.[102/] However, according to Verizon's Florida-specific 2002 data, there were an average of approximately five collocators per Verizon central office with at least one collocator.[103/] It is likely that this downward trend continued in 2003 and will continue in the foreseeable future. Thus, Verizon's proposed forward-looking fill factor of four is appropriate and should be approved.

b. Average floor space cost development methodology

The two main drivers behind Verizon's proposed average floor space cost are the cost to acquire land and the cost to build central offices. Verizon has used a current-to-book ratio to update the historical book value of its building investment to account for inflation, but has not updated its land costs — despite Florida's increasing real estate values — because Verizon has not yet identified an appropriate index to develop current land values.[104/] Dr. Gable urged the Commission to "adopt the Verizon methodology for estimating the cost of land and buildings."[105/] As Dr. Gabel explained at the hearing, Verizon's methodology "reflect[s] local conditions throughout Florida" and provides "consistency between the cost of the buildings and [] the distances within the buildings."[106/]

AT&T, on the other hand, argues that the Commission should use R.S. Means *estimates* to set the ILECs' floor space costs. As Verizon has explained — and as R.S. Means itself cautions — R.S. Means estimates are appropriate only as a starting point

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102/ *See* Gabel Confidential Rebuttal Testimony at 40-41.

103/ 1/29/04 Tr. at 752 (Bailey & Ellis) (citing Verizon response to Staff Interrogatory 32(c)).

104/ *Id.* at 670 (Bailey & Ellis).

105/ 1/29/04 Tr. at 891 (Gabel).

106/ *Id.* (Gabel).

for evaluating contractor bids where *real data* are not available.[107/] In addition, R.S. Means expressly excludes some costs that Verizon incurs to construct central offices (such as storm water management and site surveys), and likely excludes others (such as architect, design, and engineering fees).[108/] The Commission should therefore reject AT&T's proposal and approve Verizon's floor space costing methodology, which is based on real data.

c. Security cost development methodology

Verizon proposes to allocate security costs on a pro rata basis among all residents of the central office, including Verizon itself.[109/] Although this Commission has previously held that security costs should be calculated on a per square foot basis,[110/] Verizon respectfully requests that the Commission reconsider that decision and adopt Verizon's proposal.

Verizon's proposal is appropriate because the installation of a card reader system at a central office provides the same level of security to all occupants, and the cost of the system is not in any way related to the amount of square footage occupied by a particular carrier. Thus, because *each* resident in a central office receives the full benefit of the security system protecting that central office, it makes no sense to apportion system costs according to floor space. Instead, each central office resident protected by the security system should pay a pro rata share of the system's costs.

[107/] 1/29/04 Tr. at 730 (Bailey & Ellis).

[108/] *Id.* (Bailey & Ellis).

[109/] *Id.* at 750-51 (Bailey & Ellis).

[110/] *See* Order, *Petition of Competitive Carriers for Commission action to support local competition in BellSouth Telecommunications, Inc.'s service territory; Petition of ACI Corp. d/b/a Accelerated Connections, Inc. for generic investigation to ensure that BellSouth Telecommunications, Inc., Sprint-Florida, Incorporated, and GTE Florida Incorporated comply with obligation to provide alterative local exchange carriers with flexible, timely, and cost-efficient physical collocation*, Docket Nos. 981834-TP & 990321-TP, Order No. PSC-00-0941-FOF-TP, at 86-87 (May 11, 2000).

The Commission's prior ruling produces an inequitable result. Verizon's proposed security costs recover the costs of installing the advanced security systems that became necessary only with the requirement that CLECs be allowed to collocate in Verizon's central offices. Prior to collocation, Verizon's central offices were secured with a simple lock and key system, typically at the office's front entrance. Verizon now installs card reader systems to protect its central offices and to provide easy entry to the CLECs while at the same time logging the entrance and exit of employees of many different companies.[111/] Allocating the costs associated with such card reader systems on a square footage basis would result in Verizon absorbing the overwhelming share of security costs caused by the CLECs' presence in the central office.

The Commission's prior ruling also is inconsistent with FCC precedent and decisions by other state commissions, which have rejected the CLECs' claims that security costs should be recovered on a per square foot basis. In its *First Advanced Services Order*, the FCC specifically "permit[ed] incumbent LECs to install, for example, security cameras or other monitoring systems, or to require competitive LEC personnel to use badges with computerized tracking systems" and noted its expectation that "state commissions will permit incumbent LECs to recover the costs of implementing these security measures *from collocating carriers* in a reasonable manner."[112/] In applying this "reasonable manner" standard to the allocation of security costs, the New York Public Service Commission, for example, rejected "using a floor space allocator, as some CLECs suggest" because that methodology would "unfairly assign the lion's share of the

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111/ 1/29/04 Tr. at 751 (Bailey & Ellis).

112/ First Report and Order and Further Notice of Proposed Rulemaking, *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, 14 FCC Rcd 4761 ¶ 48 (1999) ("*First Advanced Services Order*") (emphasis added).

costs to [Verizon]."[113/] This Commission should follow suit here and reconsider its earlier holding on this issue.

d. Fixed allocator

Verizon proposes to use a fixed allocator of 14.09% in its collocation cost model — the same fixed allocator as Verizon proposed in the UNE docket. At the Phase II hearing, Staff cross-examined Verizon's witnesses regarding Verizon's decision to use a 14.09% fixed allocator in the collocation cost study instead of a 12.12% fixed allocator adopted by the Commission in the UNE proceeding.[114/] No party to this proceeding, however, has produced any evidence suggesting that a 12.12% fixed allocator would be appropriate for Verizon's collocation cost study and that a 14.09% fixed allocator would not. And as Verizon explained at the UNE hearing,[115/] 14.09% is an appropriate fixed allocator.

In any event, as the Commission is aware, Verizon is in the process of appealing the fixed allocator ordered in the UNE Docket because the ordered allocator is inconsistent with the Commission's own adjustments to Verizon's proposed model inputs and assumptions. Verizon will submit a compliance cost study in this docket incorporating whatever fixed allocator is ultimately ordered by the Florida Supreme Court.

e. SME time estimates

Staff witness Gabel suggests in his Rebuttal Testimony that subject matter expert time estimates are almost *per se* unreliable, and recommends that the Commission

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[113/] Opinion and Order in Module 2 (Collocation), *Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements*, Case No. 98-C-1357, Opinion No. 00-08, 2000 N.Y. PUC LEXIS 447, at *50 (NY PSC June 1, 2000).

[114/] 1/29/04 Tr. at 777-80 (Ellis).

[115/] Docket No. 990649B-TP, Hearing Tr. at 557, 630, 640 (Trimble).

apply the lowest time estimate provided by any ILEC SME to similar functions performed by each of the other ILECs.[116/] As Verizon witnesses Bailey and Ellis have explained, though, (1) SME time estimates are routinely relied upon by the FCC and state public service commissions, and (2) Dr. Gabel's element-by-element comparison ignores the differences between ILEC company practices and the interdependent nature of many SME estimates.[117/]

In their Surrebuttal Testimony, Verizon witnesses Ellis and Bailey provided the following illustration of the flaws inherent in Dr. Gabel's "relative efficiency" methodology:

> Consider a hypothetical situation in which there are only three central offices — one BellSouth office, one Sprint office, and one Verizon FL office — and only three locations in each central office available for collocation — next to the power plant, next to the main distribution frame, and next to the cable vault. Assume that BellSouth locates the collocation area in its CO next to the power plant, Sprint locates its collocation area next to the MDF, and Verizon FL next to the cable vault. BellSouth's decision as to where to locate its collocation area may lead to *lower* power costs (because less cabling, cable racking, and fewer BDFBs may be required), but to *higher* cross-connect and entrance facility costs due to the longer cables and additional racking necessary to provide those services. Likewise, Sprint would be expected to have relatively *lower* cross-connect costs and Verizon FL to have relatively *lower* entrance facility costs.
>
> Viewed in their full context, it becomes clear that the cost discrepancies among individual rate elements are reasonable. In refusing to recognize that each ILEC has its own individual system for provisioning collocation — which may result in both higher *and* lower costs for individual elements as compared to other ILECs — Dr. Gabel's analysis compares apples to oranges.[118/]

116/ *See* 1/29/04 Tr. at 865-73 (Gabel); *see also id.* at 889-90 (Gabel).

117/ 1/29/04 Tr. at 726-28, 732-35 (Bailey & Ellis).

118/ *Id.* at 726-27 (Bailey & Ellis).

At the hearing, Dr. Gabel admitted that he "found it extremely difficult" to "compare inputs across companies" because "the information systems . . . and also the building elements are different, and consequently, it's difficult to make comparisons across companies."[119/] In other words, the primary condition predicate to the reliability of Dr. Gabel's "relative efficiency" methodology — that he in fact be comparing apples to apples — is extremely dubious in this case.

Thus, in light of the very real differences among the ILECs' businesses and their collocation offerings, the Commission should reject Dr. Gabel's element-by-element comparisons of proposed collocation costs and evaluate the costs developed by each ILEC on their own merits. Since Verizon has corrected its only SME estimate that was challenged on its own merits (the power cable pull time), the Commission should approve all of Verizon's proposed SME estimates.

f. Cage cost estimates

As with his SME estimate analysis, Dr. Gabel suggested that Verizon's cage costs should be reduced to equal Sprint's proposed cage costs.[120/] As Verizon witnesses Bailey and Ellis explained, though, Dr. Gabel's overly-simplistic "relative efficiency" analysis ignores critical differences between Verizon's and Sprint's provisioning practices and cost modeling, as well as a mathematical error that leads Sprint to understate its own costs.

There are four reasons for the companies' differing proposed cage costs.

First, the key difference between Verizon's and Sprint's cost estimates is the amount of fencing assumed, which is a direct function of where the cages are located

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119/ 1/29/04 Tr. at 898 (Gabel).

120/ *Id.* at 880-81 (Gabel).

and how they are built. Sprint assumes that it will be able to build more cages along a wall and next to each other (thus minimizing the fencing — and dollars in the *numerator* — required for each) than has been Verizon's experience.[121/]

Second, Sprint treats some of those same cages as if they required four fenced sides when figuring the *denominator* used in calculating per cage costs — an error that reduces Sprint's proposed cage costs.[122/]

Third, Sprint's study assumes that multiple cages are built simultaneously, which has the effect of lowering average cage costs and increasing the risk of stranding cage investments.[123/] Verizon, on the other hand, has made the reasoned judgment that "it is more practical and cost effective to build cages as they are ordered, thus avoiding the risk of stranded investment." [124/]

Fourth, Sprint includes its cage gate costs in the total fencing costs that it uses to develop its average fencing costs, while Verizon accounts for the cost of the gate separately from its average fencing costs. Likewise, Sprint includes the cage grounding bar in its general per square foot cost, while Verizon accounts for it separately. Verizon's method of separately identifying gate costs and grounding costs allows Verizon to develop discrete, representative costs for the various cage size configurations it offers.[125/]

Sprint witness Davis asserted at the hearing that Sprint no longer plans to offer collocation cages and instead will require CLECs to contract directly with approved

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121/ 1/29/04 Tr. at 738 (Bailey & Ellis).

122/ *Id.* at 738-40 (Bailey & Ellis).

123/ *Id.* at 738 (Bailey & Ellis).

124/ *Id.* at 740 (Bailey & Ellis).

125/ *Id.* (Bailey & Ellis).

vendors for their construction.[126] It would be unreasonable to impose on Verizon caging costs that Sprint has *withdrawn*.

In sum, Sprint's proposed (and withdrawn) cage costs provide no reason for the Commission to reject Verizon's proposed cage costs, which are based on Verizon's actual experience building cages to fulfill CLEC requests.[127] Indeed, although Verizon allows CLECs to contract directly with an approved vendor to construct their cages, no CLEC has ever availed itself of this option in Florida,[128] demonstrating that Verizon's costs are reasonable and, in fact, likely lower than costs charged by outside vendors. Thus, the market has spoken on this issue, and the Commission should approve Verizon's proposed cage costs.

g. Use of GTEAMS data

In his prefiled Rebuttal Testimony, Staff witness Curry explained that he believed Verizon's GTEAMS database to contain "largely embedded investments."[129] After Verizon witnesses Bailey and Ellis explained in their Surrebuttal Testimony that GTEAMS data "reflect the *actual prices available*" currently to Verizon, taking into account Verizon's "vendor discounts and purchasing power,"[130] Mr. Curry had no specific criticism of Verizon's data. Mr. Curry's only concern was that he "did not have an opportunity during this proceeding to dig into the GTEAMS material database to the extent [h]e would have liked."[131]

126/ *See* 1/28/04 Tr. at 463-64 (Davis) (noting that Sprint will remove many collocation offerings and thus "will only retain the cost for cable racking, engineering and removal where appropriate.").

127/ 1/29/04 Tr. at 739 (Bailey & Ellis).

128/ *Id.* at 741 (Bailey & Ellis).

129/ 1/29/04 Tr. at 812 (Curry).

130/ 1/29/04 Tr. at 737 (Bailey & Ellis) (emphasis in original).

131/ 1/29/04 Tr. at 828 (Curry) (noting that "[t]hat would be a massive project on its own.").

While Mr. Curry's skepticism of the unknown is understandable, it does not provide a basis for this Commission to reject Verizon's use of GTEAMS data. This is particularly true because the database does not offer estimates, but rather, real costs: "The database provides two types of materials cost information: (1) the actual prices paid for materials that are in Verizon FL's inventory; and (2) current and effective price quotes for materials that are not or may not be in Verizon FL's inventory."[132/]

The Commission should therefore approve Verizon's use of materials inputs from its GTEAMS database.

h. 750 MCM connector tap costs

The only straight material cost from GTEAMS that any witness has challenged is Verizon's proposed cost for a 750 MCM connector tap, which Mr. Curry asserted is "clearly exaggerated" based on an R.S. Means *estimate* of the cost of a *500* MCM connector tap.[133/] As Verizon witnesses Bailey and Ellis have explained, there are three problems with Mr. Curry's analysis: First, GTEAMS data reflect actual prices; second, R.S. Means estimates are just that — estimates; and third, 750 MCM connector taps cost more than 500 MCM connector taps.[134/] The Commission should thus approve Verizon's proposed real-world 750 MCM connector tap costs.

i. Building modification rate

The Commission should approve Verizon's proposed building modification rate element because this element has not been challenged in this proceeding.[135/]

132/ 1/29/04 Tr. at 736-37 (Bailey & Ellis).

133/ 1/29/04 Tr. at 821 (Curry).

134/ 1/29/04 Tr. at 745-46 (Bailey & Ellis).

135/ As noted above, Dr. Gabel criticized Verizon's calculation of the fill factor component of this rate element, but did not challenge Verizon's right to the rate element itself. Dr. Gabel's fill factor challenge is ill-conceived for the reasons explained in subsection (a), above.

Moreover, the Commission should approve this rate element because it is correct. The key point here is that Verizon's building modification rate element recovers different costs than its floor space rate element. The floor space element recovers primarily the land and building costs incurred to erect a central office.[136/] The building modification element, on the other hand, recovers the specific interior design and construction costs necessary to create a collocation area within that central office.[137/] Thus, Verizon will continue to incur building modification costs in a forward-looking environment, either in conjunction with the initial construction of the central office or in reaction to the first request of a CLEC to collocate at the central office. Verizon's proposed building modification rate element should therefore be approved.

Issue 10: What are the appropriate definitions, and associated terms and conditions for the collocation elements to be determined by the Commission?

Verizon's Position: ** The appropriate definitions, terms, and conditions for Verizon's collocation elements are set forth in Verizon's currently effective intrastate collocation tariff. Verizon takes no position on the appropriate definitions, terms, or conditions for BellSouth's or Sprint's collocation elements. **

The definitions, terms, and conditions set forth in Verizon's Florida collocation tariff are fully compliant with FCC and Commission rules and have not been challenged by any party to this proceeding. The Commission therefore should endorse the definitions and associated terms and conditions of Verizon's currently effective intrastate collocation tariff, as amended on February 20, 2004, to comply with the Commission's Order Granting Variance (Order No. PSC-04-0105-PAA-TP (Jan. 29, 2004)).

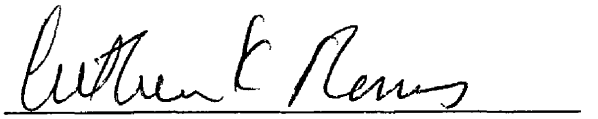
136/ 1/29/04 Tr. at 669-71 (Bailey & Ellis).

137/ *Id.* at 672-73 (Bailey & Ellis).

III. Conclusion

For the foregoing reasons, Verizon's proposed collocation rates, terms, and conditions should be adopted.

Respectfully submitted,



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Docket No. 981834-TP and 990321-TP

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