

1 **Expanded Extended Loops**

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3 **Q. Let's turn to the fourth section of your testimony. Can you please briefly describe**
4 **Verizon's EEL proposal?**

5 A. In its proposed tariff revisions, Verizon describes its proposed EEL offering as follows:

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7 An EEL arrangement combines two or more of the following unbundled
8 network elements: unbundled loop; unbundled transport; and unbundled
9 multiplexing. BA-PA will perform the necessary functions to combine
10 Loop and Transport Unbundled Network Elements to provide Expanded
11 Extended Loop ("EEL") arrangements. An EEL arrangement is
12 provisioned from an end user's premises to a point of interconnection at a
13 collocation arrangement in BA-PA's central office or to another OTC
14 interface location. [Tariff 216, Section 3, 1st Revised Sheet 3B]
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16 Verizon states that it will make the following EEL combinations available to CLECs:

- 17 – Voice grade and DS0 loops with DS0 transport without multiplexing
- 18 – Voice grade and DS0 loops with DS0 transport as part of a multiplexed
19 arrangement
- 20 – Voice grade and DS0 loops with DS1 transport without concentration
- 21 – Voice grade and DS0 loops with DS1 transport with concentration
- 22 – Voice grade and DS0 loops with DS3 transport without concentration
- 23 – Voice grade and DS0 loops with DS3 transport with concentration
- 24 – DS1 loops with DS1 transport
- 25 – DS1 loops with DS3 transport
- 26 – DS3 loops with DS3 transport[Id.]
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28 **Q. Do you have any concerns about the Verizon's EEL proposal?**

29 A. There are several problems associated with Verizon's proposal. First, Verizon proposes
30 to place unreasonable and anti-competitive restrictions on the use and availability of
31 concentration equipment. Second, Verizon proposes to restrict the use of EELs to
32 facilities involving a "significant" amount of local traffic; aspects of this proposal are
33 unduly restrictive and will have the effect of discouraging the use of EELs, and forcing
34 CLECs to operate inefficiently, or to incur unnecessary expenses. Third, Verizon has
35 proposed to assess certain questionable EEL "connection" fees. Assuming that the

1 Commission allows Verizon to charge any such fees, the charges proposed by Verizon
2 are excessive and should be reduced in accordance with the recommendations made in
3 my testimony (which, among other things, makes adjustments for the fact that the
4 proposed costs are inflated because Verizon improperly utilized incorrect cost study
5 inputs.)

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7 **Q. Can you please elaborate on your first concern regarding concentration equipment?**

8 A. The Global Order provides that: “BA-PA will provide all necessary multiplexing as well
9 as any necessary concentration to provide these combinations as part of the interoffice
10 transport function”. [Global Order, p. 91]. Verizon’s tariff proposal unnecessarily limits
11 the Commission’s concentration requirement to the sole alternative of a virtual
12 collocation arrangement. The proposed tariff states that :

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14 EEL concentration-dedicated terminal equipment inside BA-PA’s central
15 office will be provided by the OTC and ownership transferred to BA-PA
16 for the sum of one dollar (\$1.00). BA-PA will own and maintain the
17 OTC-dedicated equipment inside the central office. [Id., 3rd Revised Sheet
18 4]
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20 This proposal is unduly restrictive and the Commission should order Verizon to modify it
21 for several reasons. For one thing, Verizon’s proposal requires the CLEC to purchase and
22 provide its own concentration equipment regardless of whether such equipment is
23 available in Verizon’s own network. Although the 1996 Telecom Act requires Verizon to
24 provide CLECs with access to elements of its entire network on an unbundled basis,
25 Verizon has not offered to provide CLECs with access to equipment in its own network
26 which can potentially provide this concentration function. The limited scope of
27 Verizon’s proposal also seems contrary to the plain language of the Global Order, which,
28 as previously noted, requires Verizon to provide all necessary concentration functionality.
29 The Global Order does not require collocation as a prerequisite to EEL deployment, and
30 no such limitation should be imposed.

1 In his direct testimony, Verizon witness Don Albert explains the limited scope of
2 its proposal as follows:

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4 Providing EEL concentration capability requires the purchase and
5 installation of new GR-303 remote terminal equipment in Verizon PA's
6 central offices. This equipment configuration does not currently exist in
7 Verizon PA's central offices. My understanding is that the
8 Telecommunications Act of 1996 ("Act") does not require incumbent
9 LECs to provide "unbundled" access to equipment that is not part of their
10 network. To the contrary, the Act's unbundling requirement applies to
11 network elements as they exist or are deployed in incumbent LECs'
12 networks.
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14 However, Mr. Albert does not state whether or not Verizon has any equipment in its
15 network which could potentially be useful in performing a concentration function, nor
16 does he offer to provide CLECs with access to such equipment to the extent it is
17 currently, or is subsequently, installed in Verizon's central offices. Any such
18 arrangements should be made available to CLECs and the tariff should be modified
19 accordingly. To the extent Verizon currently has concentration equipment in its network
20 (or adds such equipment to its network in the future), CLECs should be given access to
21 the equipment. CLECs should not be required to purchase equipment that would
22 duplicate equipment or facilities that exist in Verizon's network, which is a potential
23 effect of Verizon's proposal.

24 Moreover, Verizon proposes to place unnecessary restrictions on the ability of a
25 CLEC to cost effectively use concentration equipment, by sharing it with other CLECs.
26 Verizon's proposed tariff provides that:

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28 The EEL concentration equipment must be dedicated to one OTC because,
29 as of the effective date of this tariff, partitioning of such equipment is not
30 technically feasible. [Id.]
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1 Verizon's view of this issue is not shared by the CLECs. For example, in a Complaint
2 that was consolidated into the present case, MCIWorldcom stated that:

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4 the GR-303 signaling that is used to provide concentration also supports
5 multi-hosting. Multi-hosting is the process whereby multiple switches
6 (and hence multiple "OTCs" and, for that matter, BA too) can connect
7 directly to and simultaneously use the DLC equipment that is used in the
8 EEL arrangement. [MCI Complaint, February 28, 2000, Docket No. P-
9 00991648].
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11 Similarly, MCIWorldcom recently argued the following in a proceeding before the New
12 Jersey Board of Public Utilities:

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14 Multi-hosting using GR303 technology, which would allow per line access
15 is technically feasible today using equipment deployed in BA-NJ's
16 network. BA has admitted in New York that multi-hosting is technically
17 feasible. Specifically, BA has stated that '[c]urrent GR303 systems can
18 support a limited number of virtual interface groups ("VIGs"), which
19 means that *a single RT [Remote Terminal] can connect to (a limited*
20 *number of) different switches* or to different peripherals on the same
21 switch." In particular, BA-NJ deploys DLC in its network today and this
22 same equipment, if not GR303 compliant ready, can be configured to be
23 GR303 compliant through the use of plug-in units. BA-NJ should not be
24 allowed to limit its concentration offering and should be required to
25 provide concentration to CLECs on a per line, as needed basis. In turn,
26 BA-NJ's EEL with concentration offering should be priced per line rather
27 than pricing on a dedicated basis. [Direct Testimony of Don A. Laub, July
28 28, 2000, Docket No. TO00060356]
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30 Verizon has anticipated such arguments by reiterating its claim that sharing concentration
31 equipment by multiple carriers is not technically feasible:

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33 Multi-hosting of this type of equipment by multiple carriers' switches is
34 not technically feasible. Significant technical, operational, and
35 administrative issues, including security and network reliability problems,
36 arise if multiple carriers' switches are connected to a single GR-303
37 remote terminal. For example, having multiple carriers share the same

1 GR-303 system (multi-hosting) would create serious security problems
2 because GR-303 technology does not provide management capabilities for
3 individual carrier interfaces, but rather offers an all-or-nothing access
4 configuration. This is unacceptable from privacy, network reliability, and
5 service quality perspectives. [Direct Testimony of Donald Albert, August
6 11, 2000, pp. 4-5]
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8 While Verizon's witnesses have not explained their arguments in much detail, it seems
9 that their major concerns are administrative rather than a true lack of technical feasibility.
10 For instance, if the equipment in question is owned and maintained by Verizon (although,
11 as previously mentioned, a virtual collocation arrangement should not be the only means
12 by which concentration equipment is made available), only its technicians would have
13 access to it. It is hard to understand why privacy, reliability or quality problems would
14 necessarily arise just because two different CLECs were sharing the same Verizon
15 equipment. The same Verizon technicians would work on all the circuits, which would all
16 be connecting Verizon loops to Verizon transport facilities. It appears that it would be
17 technically feasible to have some of those Verizon transport facilities terminate in carrier
18 A's collocation cage, and the rest of the circuits terminate in Carrier B's collocation cage.

19 Mr. Albert only vaguely alludes to the existence of impediments that could, in
20 Verizon's view, preclude CLECs from sharing concentration equipment. Given the lack
21 of any detail in Verizon's testimony concerning such impediments, it is difficult to
22 determine what those complications may be or to analyze their effect, if any on the
23 provisioning of concentration equipment. In any event, it should be feasible to work out
24 any complications that may arise during implementation. The mere fact that Verizon
25 does not have an incentive to solve the problems should not excuse Verizon from
26 permitting the efficient sharing of the equipment. Instead, the Commission should require
27 Verizon to work with CLECs in identifying and analyzing any administrative and other
28 complications, and developing appropriate solutions. Furthermore, Verizon's proposed
29 tariff language should be changed to ensure that CLECs will have the option of joining
30 together to purchase and share the required concentration equipment, provided they work

1 out the administrative details among themselves. Sharing equipment would reduce capital
2 requirements and increase efficiency, thereby encouraging a more rapid transition to
3 effective competition.

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5 **Q. Can you please elaborate on your second concern, regarding Verizon’s proposed**
6 **restrictions on EELs concerning “significant” local traffic?**

7 A. Yes. Verizon’s proposed tariff provisions provide that EEL arrangements “must be used
8 to provide significant local exchange traffic and associated exchange access service to a
9 particular end user customer”. [Tariff 216, Section 3, 3rd Revised Sheet 4] For DS0 level
10 loops, it is presumed that the OTC is providing a significant amount of local exchange
11 service if the OTC is “the exclusive provider of an end user’s local exchange service for
12 all end users served on the EEL arrangement”. [Id.].

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14 **Q. Are Verizon’s proposed restrictions on DS0 loops appropriate?**

15 A. No. Verizon’s proposal is much too restrictive. When the FCC addressed this issue, it
16 imposed some restrictions on the ability of carriers to convert their special access circuits
17 to EELs, but it certainly did not limit the use of EELs to situations in which the CLEC
18 has convinced the customer to allow it to provide 100% of their local exchange service.
19 The FCC stated that:

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21 IXC’s may not convert special access services to combinations of
22 unbundled loops and transport network elements, whether or not the IXC’s
23 self-provide entrance facilities (or obtain them from third parties).
24 [Supplemental Order, CC Docket No. 96-98, November 24, 1999, ¶ 4]

25
26 This constraint does not apply if an IXC uses combinations of unbundled
27 loop and transport network elements to provide a significant amount [50%
28 or more] of local exchange service, in addition to exchange access service,
29 to a particular customer. It therefore does not affect the ability of
30 competitive LECs to use combinations of loops and transport (referred to
31 as the enhanced extended link) to provide local exchange service. It also
32 does not affect the ability of competitive LECs that are collocated and

1 have self-provided transport (or obtained it from third parties), but are
2 purchasing unbundled loops, to provide exchange access service. [Id., ¶ 5]
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4 The FCC emphasized that this was a temporary constraint intended to preserve the status
5 quo while it considers “the legal and economic implication of allowing carriers to
6 substitute combinations of unbundled loops and transport network elements for the
7 incumbent LECs’ special access services”. [Id., ¶ 7] Similarly, this Commission should
8 keep the pro-competitive goals of the 1996 Telecom Act in mind, and remain skeptical of
9 arduous restrictions which have little purpose but to impede the transition to a
10 competitive local exchange market.

11 In the context of DS0 loops, Verizon proposes to restrict the use of EELs to
12 CLECs who are the exclusive provider of local traffic for all end users on the EEL
13 arrangement. This is unduly restrictive, and would thwart the Commission’s goal of
14 promoting local competition by making it much more difficult for CLECs to use EELs in
15 serving smaller business and residential customers, including those in the less dense, rural
16 and suburban areas of Pennsylvania. Consider a small business that has 10 voice grade
17 local exchange lines. The CLEC may try to convince this business to try its service on a
18 few of these lines, while continuing to rely on Verizon for the others. This arrangement
19 reduces the risks for the customer, and gives the CLEC an opportunity to prove itself and
20 thus introduce competition to the market. Nonetheless, under Verizon’s proposal, the
21 CLEC would be prevented from using EELs to serve this customer. If the CLEC
22 attempted to include even one circuit from such a customer on an EEL arrangement, it
23 would violate the tariff provision, and prevent it from benefiting from the UNE rates for
24 the entire group of circuits serving this and other customers. Clearly, Verizon’s proposal
25 is inappropriate and would impede the emergence of meaningful local competition in
26 Pennsylvania.

27
28 **Q. What about the proposed restrictions on DS1 and higher loops?**

1 A. In comparison to Verizon's proposed restrictions on DS0 loops, its suggested limitations
2 on the use of DS1 and higher loops are more appropriate. (although ATX and
3 NEXTLINK do not concede that any such restrictions are warranted). Despite the fact
4 that Verizon's proposals for DS1 and higher loops also impose limitations on a CLEC's
5 ability to utilize EELs fully, these limitations are less restrictive, and thus more
6 reasonable, than what Verizon has proposed for DS0 loops. For DS1 level loops and
7 above, Verizon would presume the OTC is providing a significant amount of local
8 exchange service if the following conditions are met:

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10 The CLEC must be providing an integrated local/toll service to the end
11 user customer that handles at least one-third of the end user customer's
12 local voice traffic as measured by the number of local exchange lines
13 being provided to the end user's location. CLEC will provide to Bell
14 Atlantic, upon request, the number of local exchange lines it provides to
15 its end user's location where the EEL terminates; and
16

17 At least 50 percent of the activated channels on the DS1 loop must each
18 have at least 5 percent local voice traffic; and
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20 The entire DS1 loop facility must have at least 10 percent local voice
21 traffic; and
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23 If the loop/transport combination includes multiplexing, each of the
24 individual DS1 circuits connected to the multiplexer must meet the criteria
25 listed above. [Tariff 216, Section 3, 3rd Revised Sheet 4, et. seq.]
26

27 Assuming that the Commission allows Verizon to impose any restrictions on the use of
28 DSO loops, these should be similar to those proposed for DS1 loops (although, as
29 previously mentioned, ATX and NEXTLINK do not concede that any such restrictions
30 are appropriate). CLECs would thereby be allowed to use EELs in furnishing a portion
31 of an end user's local exchange service, provided that each circuit included in the EEL
32 arrangement carries at least 5% local traffic, and the overall group of circuits carries an
33 average of at least 10% local exchange traffic.
34

1 **Q. Has Verizon restricted the use of EELs in any other way?**

2 A. Yes. Verizon's proposed terms and conditions contain the following restriction: "EEL
3 arrangements may not be connected to BA-PA's special access multiplexing or transport
4 services". [Tariff No. 216, Section 3, Sheet 4A] It appears that Verizon is proposing to
5 require CLECs to split their traffic, and buy separate DS1s or DS3s for their local and
6 special access services. This proposal is more restrictive than necessary. The Commission
7 should not discourage carriers from using EELs, or require them to physically separate
8 the local and special access circuits. Requesting CLECs should be given the option of
9 using EELs and special access circuits on the same physical facility, thereby gaining the
10 efficiencies and cost savings associated with use of larger facilities, provided that they
11 pay the EEL rate for circuits which carry substantial local traffic, and pay the special
12 access rate for circuits which do not.

13 For example, a CLEC may already have a large special access network with a
14 significant amount of spare capacity. If the CLEC has a customer for local service that
15 can be served via an existing special access hub, the CLEC should be allowed to convert
16 a portion of its spare special access to EEL, rather than being forced to purchase a
17 separate EEL to serve the local customers. If the CLEC pays, for example, \$56 for a
18 special access DS3 and \$28 for an EEL DS3, the CLEC should be able to pay for each
19 channel (DS1) on that DS3 at the applicable cost. Therefore, if there are 20 DS1 special
20 access channels, and 8 DS1 EEL channels, the CLEC should pay \$48 for that DS3 (\$2
21 per special access DS1 and \$1 for each EEL DS1). This concept is similar to the price
22 "ratcheting" of special and switched access services provided over the same facilities.

23

24 **Q. Please discuss Verizon's proposed EEL connection charges. What is the stated
25 purpose of these charges, and what is your view of the propriety of the charges?**

26 A. Verizon explains that this charge is "designed to recover the capital cost associated with
27 the testing equipment required to perform testing and trouble isolation of the extended
28 loop". [Sanford and Stern Direct Panel Testimony, p. 23]

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Q. Can you explain how Verizon developed the EEL proposed connection charges?

A. Yes. Verizon developed a factor “to reflect the relationship between the capital costs associated with the testing equipment to the outside plant and circuit equipment investments (excluding pole and conduit)”. [Id., p. 24] This factor was created by taking Verizon’s entire embedded investment in testing related equipment, loaded for land and building investment, and applying a carrying cost factor. The resulting testing-related annual cost was then multiplied by a series of factors. One factor removed the portion of testing costs which Verizon believed would be “avoided” in a wholesale environment. Another factor removed the portion of these costs which Verizon believed were central office related (leaving intact the portion which were “not CO related”). Another factor removed the portion of these costs which is not related to regulated operations. Finally, Verizon divided the resulting net testing expense by its entire embedded investment in regulated outside plant and circuit equipment, excluding pole and conduit. The resulting factor was then applied to the investments it had estimated for Voice Grade, Digital 4-Wire DSO (56 KD), and the DS1 loops.

To develop the EEL DS3 loop connection charge, Verizon combined vendor material prices, installation costs and power requirements to develop the installed investment for the 3/3 DCS port Termination per DS0. [Id.] The per DS0 investment was multiplied by 672 (the equivalent number of DS0 circuits in a DS3) to develop total DS3 level DCS investments. An annual cost factor was then applied to this investment. [Id.]

Q. Have the Commission and the FCC established any ground rules with regard to “connection” charges or other fees that might be imposed on carriers that combine loop UNEs with transport UNEs (purchasers of EELs)?

A. Yes. Both the Commission and the FCC have expressed concern about burdening purchasers of UNE combinations with additional charges beyond those included in the rates applicable to each of the UNEs. For instance, the Commission has said that

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Only in circumstances involving a request that BA-PA manually combine uncombined elements would it be appropriate for this Commission to consider the application of a fee for such a service. We are persuaded that there is no forward looking cost basis for a charge to combine these elements, also known as a “glue charge,” that would be applicable to the provision of already combined UNEs. [Global Order, p. 89]

Similarly, while the FCC has not flatly prohibited “glue” charges, it has expressed “skepticism” of them. [FCC Memorandum Opinion and Order, CC Docket No. 99-295, December 21, 1999, ¶262] As I explained earlier in my testimony UNE-P and EELs can both play an important role in the development of effective competition. If CLECs are burdened with unnecessary or excessive charges when they purchase EELs, they will be discouraged from entering the market or expanding their operations in Density Cells 3 and 4. Hence, the Commission should place a heavy burden of proof on any ILEC which proposes to impose additional charges for combinations of UNEs, regardless of whether these extra fees are described as “connection” charges, “glue” charges, or “testing” charges. Any such additional charges should be rejected unless the incumbent can prove, by unambiguous, persuasive evidence, that they are designed to recover actual, out of pocket costs which are only incurred because UNEs are being combined, that the costs involved are not redundant to analogous costs which the CLEC incurs internally, and that the proposed charges are not redundant to costs which are already recovered through the UNE rates themselves.

Q. Have you reviewed Verizon’s EEL connection cost study to determine if Verizon’s proposed charges should be allowed, given these criteria?

A. Yes. I concluded that Verizon’s proposal does not meet any of these criteria. For example, most of the proposed charges are based upon a long series of arithmetic steps, in which Verizon develops a percentage factor which it subsequently applies to certain investments related to the loop and transport UNEs which comprise certain of its EEL

1 offerings. There has been no showing that the proposed rates have anything to do with
2 any specific types of testing or maintenance functions, much less that they are needed in
3 order to recover some sort of actual, out of pocket costs which will only be incurred
4 because UNEs are being combined into EELs.

5 Furthermore, there is no way to tell whether the testing activity and functions
6 which supposedly justify the proposed charges are actually needed by CLECs, or whether
7 they are redundant to testing or other tasks which will be performed by or on behalf of
8 the CLEC at its own expense. For example, the stated rationale behind the proposed
9 connection charge is that it is needed to recover “testing” related costs. However, CLECs
10 will necessarily test their circuits to ensure that all of the facilities are working together
11 properly, and to ensure that the customer is receiving high quality service. When a
12 CLEC’s customer calls to complain about a problem on their line, the CLEC will test the
13 circuit in an effort to identify and correct the problem. Testing of this sort can efficiently
14 be performed from the CLEC’s central office, where it is possible to isolate whether the
15 problem is in the switch, or in the circuit connecting to the switch. If the problem is in an
16 EEL, Verizon will be responsible for fixing it. Even if Verizon decides to perform some
17 additional testing before fixing the problem, the initial testing performed by the CLEC
18 will typically be helpful in identifying the problem, thereby reducing the amount of time
19 and effort expended by Verizon’s technicians. Given the labyrinthine approach used to
20 develop the proposed charges, there is no way to determine whether any of these alleged
21 testing costs relate to testing which will actually be needed to provide EELs, or whether it
22 is entirely redundant of testing which the CLEC will perform itself.

23 In any event, to the extent some testing of EELs will be performed by Verizon,
24 the cost of this testing activity is already included in the rates charged for the transport
25 and loop UNEs. This follows logically from the fact that both loops and transport circuits
26 occasionally need to be tested, and Verizon charges UNE rates which recover all of the
27 reasonably anticipated costs of the UNE, including testing. Moreover, Verizon has not
28 shown that it is any more costly to test loops which are connected to a Verizon transport

1 facility. While the amount of testing needed on any particular loop will vary, depending
2 upon the age of the cable and other factors, there is no reason to assume that the cost of
3 testing a loop will depend upon the type of facility to which it is connected. Similarly,
4 Verizon has not shown that it is more costly to test transport circuits which have been
5 connected to a Verizon loop, thereby justifying a higher rate. Absent overwhelming
6 evidence to the contrary, it is reasonable to assume that the testing and other costs of
7 providing a combination of UNEs will be approximately the same as the total of the costs
8 of providing these same items separately.

9
10 **Q. Do you have any other comments concerning the cost study supporting Verizon's**
11 **proposed connection charges?**

12 A. Yes. There are two aspects of the study which are particularly inappropriate, even
13 assuming that the intent of the charge is to only recover testing costs which are
14 specifically related to the process of connecting a loop to a transport facility.

15 First, the testing-related percentage factor which is developed in the study is
16 applied to the investment in the entire EEL, not the (relatively small) investment in the
17 main distribution frame or other cross connect facilities which are directly related to the
18 physical process of connecting a loop to a transport facility. Thus, there is every reason to
19 be concerned that the calculated costs are excessive, and redundant to analogous costs
20 which are already recovered through the standard UNE rates.

21 Second, in one of the steps used in developing the proposed connection charge,
22 Verizon applies a percentage factor representing the “% of Subscriber Trouble Reports
23 that are Not CO (Central Office) Related.” However, the application of this factor is
24 reversed. If one is going to utilize a factor like that proposed by Verizon, the logical
25 purpose would be to remove the portion of testing activity which is related to the loop
26 and the transport plant which is located outside the central office, thereby limiting the
27 focus to troubles within the central office itself. However, Verizon has followed the
28 opposite approach. Verizon removed all troubles that occur within the central office

1 (where the EEL connection occurs), thereby limiting their factor to testing related to
2 troubles outside of the central office (where the bulk of the loop and transport facilities
3 are situated).

4
5 **Q. Can you provide the Commission with an estimate of how much lower Verizon's**
6 **proposed connection charges would be if either of these two issues were handled**
7 **differently?**

8 A. If Verizon had applied its testing factor to its investment in cross connect equipment in its
9 central offices (*i.e.*, the facilities primarily utilized to connect a loop to a transport
10 facility), rather than using its entire loop investment, the resulting EEL connection
11 charges would have been a small fraction of the ones it has proposed in this proceeding.
12 Similarly, consider first the factor which relates to the percentage of troubles outside of
13 the central office. If Verizon had used the reciprocal of this factor, thereby focusing on
14 troubles which occur within the central office where the EEL connection will be located,
15 the proposed connection charges which are derived using this factor would have been far
16 less than what it has proposed, as shown in the table below:

17 **Table 1**
18 **EEL Connection**
19 **Revised Monthly Recurring Costs**
20 **[BEGIN PROPRIETARY]**

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| Item | Verizon Proposed | Revised |
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22 **[END PROPRIETARY]**

1 **Q. Do you have any other comments concerning this cost study?**

2 A. Yes. It is apparent from Verizon's response to the following interrogatory that Verizon
3 has NOT used the inputs adopted by the Commission in the Global Order.

4

5 REQUEST:

6 With respect to VZ-PA Stmt. 1.0 at 3, identify each recurring and non-
7 recurring rate that VZ-PA has proposed in this proceeding that (a) does
8 not use any of the inputs established by the Commission in the
9 September 30, 1999 Global Order, and (b) uses one or more of the inputs
10 established by the Commission in the September 30, 1999 Global Order.

11

12 RESPONSE:

13 As explained at pps. 25 and 38 of Verizon PA's Direct Panel Testimony,
14 Verizon PA's Digital 4-Wire (KD) loop cost study is based, in part, on the
15 Commission's Global rate for the Customer Specified Signaling (CSS) 4
16 Wire Loop. In addition, the Distribution Unbundled Subloop
17 Arrangement cost study reflects the Commission's Global Order Step 1
18 percent reduction. All other cost studies reflect the inputs ordered by the
19 Commission in MFS Phase III. [Response of Bell Atlantic-Pennsylvania to
20 Set II, Interrogatory No. 1 of AT&T Communications of Pennsylvania,
21 Inc., September 8, 2000, emphasis added.]

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23 **Q. Does Verizon explain why it did not use the cost study inputs adopted by the**
24 **Commission in the Global Order?**

25 A. Not in a satisfactory or acceptable manner. As explained by Verizon witness Harold
26 West:

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28 Verizon PA developed the rates introduced in the April 28 filing using
29 certain capital factors (i.e., cost of capital and depreciation lives) as well
30 as the common overhead factor approved in the MFS Phase III
31 proceeding. These factors, which were also used to develop the additional
32 UNEs in this docket, are appropriate because they were fully litigated and
33 approved by the Commission as forward-looking and consistent with the
34 FCC's TELRIC methodology. (The capital factors ordered by the
35 Commission in the Global Order, by contrast, were not fully litigated and

1 have no evidentiary or factual support. It is, therefore, inappropriate to
2 use them to develop rates for new UNEs.) [pp. 4-5]
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4 However, the fact of the matter is that the Global Order was issued subsequent to the
5 original MFS Phase III decision, and it reflected certain changes in the Commission's
6 conclusions. The Commission explained that one of the reasons for revisiting the UNE
7 rates set in the MFS III proceeding and one of the reasons why it ultimately changed
8 some of its conclusions in the Global Order was its determination that costs are
9 continuing to decline in the telecommunications industry. Because of this continuing
10 downward trend in costs, the Commission concluded that the inputs and resulting rates
11 adopted in MFS III were simply too high to reflect current conditions. [Global Order, pp.
12 69-70]. This decision was confirmed by other evidence discussed in the Global Order, as
13 well (e.g. concerning the HAI model). The Commission's reasoning in that case applies
14 equally to costs and rates for the UNEs being developed in this proceeding. Hence, where
15 there is a conflict between the MFS III inputs and those used in Scenario 9 referenced in
16 the Global Order, the latter inputs should be given preference in this proceeding, because
17 they provide a more reasonable result.

18 As I explained earlier in my testimony, when the Commission incorporated
19 review of Verizon's April 28 filing in this docket, it stated that:

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21 the scope of the investigation shall include an examination as to whether
22 the instant filing complies to the Global Order and whether the rates for
23 services in the instant filing were developed using the Commission's
24 adopted methodology in the MFS III proceeding as modified by Scenario
25 9 and other conditions consistent with the Global Order. [Order, Docket
26 No. R-00005314, June 8, 2000, p. 4. (Emphasis added)]
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28 Thus, Verizon had ample notice that the Commission expected it to use the Scenario 9
29 inputs, rather than the earlier MFS III inputs, for purposes of the instant case. If Verizon
30 wanted to dispute the use of the Commission's recently adopted inputs, Verizon should
31 have submitted detailed evidence concerning the inputs in question at the time the

1 Commission considered those inputs. For instance, Verizon could have submitted
2 evidence concerning its current cost of capital. Then other parties would have had an
3 opportunity to rebut Verizon's evidence. Instead, Verizon has merely asserted its
4 approval of the earlier MFS III proceeding, and made the unsupported claim that the
5 Commission's decision in the Global Order was somehow inferior, because capital cost
6 inputs were not "fully litigated" in that proceeding. In fact, the Commission correctly
7 recognized that telecommunications is an industry in which costs are declining, and thus
8 UNE rates should reasonably be expected to decline over time. Furthermore, the
9 Commission was correct in recognizing that the rate of return used in the original MFS
10 III decision was substantially higher than Verizon's actual cost of capital. On both
11 grounds, then, it is reasonable and appropriate for the Commission to uphold its decision
12 to employ the Scenario 9 inputs over the inputs used in MFS III, and to reject Verizon's
13 improper use of the outdated MFS III inputs.

14
15 **Q. Do you have any concluding remarks regarding EELs before we move on to the next**
16 **topic?**

17 A. Yes. I would like to emphasize the importance of EELs as a competitive mode of entry,
18 particularly to smaller CLECs or in less densely populated areas. With EELs, CLECs are
19 not required to collocate in every one of Verizon's central offices in order to use their
20 own switching equipment. Instead, the CLEC can connect the loops it rents from Verizon
21 to its switch, using Verizon's transport facilities. Connecting these loops and transport
22 UNEs is a simple matter for Verizon, and it eliminates the need for the CLEC to incur the
23 added costs and complexity of achieving these connections by using multiple, expensive
24 collocation arrangements. This consideration is particularly compelling in areas where
25 collocation space is limited or collocation is impractical due to the prohibitive cost of
26 implementing such arrangements in low density rural and suburban areas of the state.
27 Accordingly, in resolving the disputed issues in this proceeding, the Commission should
28 strive to ensure that EELs are readily available, it should avoid burdening CLECs with

1 unnecessary or excessive costs, and it should avoid imposing restrictions which make it
2 more difficult or costly for CLECs to efficiently operate using EELs. Finally, I would
3 stress that Verizon's performance in installing and maintaining EELs will have a
4 significant impact on competitive market conditions. The Commission should closely
5 monitor Verizon's performance in this area to ensure that it meets or exceeds all
6 applicable performance standards and requirements.