

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
Petition of WorldCom, Inc. Pursuant)	
to Section 252(e)(5) of the)	CC Docket No. 00-218
Communications Act for Expedited)	
Preemption of the Jurisdiction of the)	
Virginia State Corporation Commission)	
Regarding Interconnection Disputes)	
with Verizon Virginia Inc., and for)	
Expedited Arbitration)	
)	
In the Matter of)	CC Docket No. 00-249
Petition of Cox Virginia Telecom, Inc., etc.)	
)	
)	
In the Matter of)	CC Docket No. 00-251
Petition of AT&T Communications of)	
Virginia Inc., etc.)	
)	

VERIZON VIRGINIA INC.

**REBUTTAL TESTIMONY OF HAROLD E. WEST, III
ON POLICY ISSUES**

August 27, 2001

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1 **I. INTRODUCTION AND SUMMARY**
2 **(JDPL Issues II-1-II-1-d; II-2-c-d; IV-30; IV-36)**

3 **Q. Please state your name, position and business address.**

4 A. My name is Harold E. West, III. I am Director – Regulatory Support for Verizon
5 Communications, Inc. My office is located at 540 Broad Street, Newark, New Jersey.

6

7 **Q. Are you the same Harold E. West III who filed direct testimony on behalf of Verizon**
8 **in this docket on July 31, 2001?**

9 A. Yes.

10

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. The purpose of this testimony is to respond to the testimony of AT&T and WorldCom
13 witnesses Murray and Pitts, AT&T witness Kirchberger, and WorldCom witness
14 Goldfarb regarding the appropriate rate structure to apply to switching costs. Mr. Frank
15 Murphy responds to AT&T/WorldCom's classification of particular switching costs as
16 usage sensitive versus non-usage sensitive.

17

18 **Q. Please summarize your testimony.**

19 A. The Commission should adopt a switching rate structure that is consistent with cost
20 causation principles. Costs that are usage sensitive should be recovered from the CLEC
21 based on that CLEC's amount of usage.^{1/} WorldCom's proposal to include all usage
22 sensitive costs in the flat-rated port charge is plainly inappropriate and would cause

^{1/} Of course, Verizon VA strongly disputes AT&T/WorldCom's view of what types of switching costs are usage sensitive. Mr. Frank Murphy responds to these AT&T/WorldCom claims in his rebuttal testimony.

1 carriers such as AT&T/WorldCom which target high volume customers to be subsidized
2 by carriers with low volume customers.

3
4 Verizon VA's proposed UNE switching rate structure was adopted in the Local
5 Competition Order and has been in place for years. As WorldCom witness Mr. Goldfarb
6 admits, switched access costs have been recovered on a usage basis for decades.^{2/}
7 AT&T/WorldCom have provided no reason to depart from this established rate structure.
8

9 **II. USAGE-SENSITIVE SWITCHING COSTS SHOULD BE RECOVERD ON A PER**
10 **MINUTES-OF-USE BASIS, CONSISTENT WITH COST CAUSATION**
11 **PRINCIPLES.**
12 **(JDPL Issues II-1-II-1-d; II-2-c-d; IV-30; IV-36)**

13 **Q. Do you agree with WorldCom's recommendation that switching costs should be**
14 **recovered on a flat rate basis? (Goldfarb at 4.)**

15 A. No. It would not be appropriate to implement a rate structure that is based solely on a
16 flat-rate design. Verizon VA properly separates charges associated with the ports and
17 usage into different rate elements consistent with cost causation principles. Specifically,
18 47% of Verizon VA's switching costs are non-traffic sensitive and are included in
19 Verizon VA's port charge; the other 53% of the switching costs are usage sensitive and
20 are recovered through Verizon VA's switching minutes-of-use charges.^{3/}
21

22 A rate structure that captures both port and usage charges, including those for
23 vertical features, is consistent with the way costs are incurred for circuit switching.

^{2/} Direct testimony of Mr. Goldfarb at 6.

^{3/} This calculation is shown in the Local Switching cost study at Vol. VI, Parts C-8, Sec. 5.9.

1 Indeed, on this point, Verizon agrees with Mr. Kirchberger's statement that the proposal
2 for a flat rated charge to recover all switching costs "does not properly align rates and
3 costs."^{4/}
4

5 **Q. Would putting usage costs into a flat-rated, per port, rate harm certain carriers?**

6 A. Yes. If usage costs are included in a flat rated, per-port price, then the resulting flat-rated
7 price must incorporate assumptions regarding the *average usage* across all customers
8 (e.g., high use business customers and low volume residential customers). This would,
9 of course, lead to a higher per port charge. While carriers, such as AT&T/WorldCom,
10 that target higher than average volume business customers would avoid paying their fair
11 share of the switching costs, smaller carriers, particularly those targeting low volume
12 users, will be negatively affected because they will be paying higher port charges to
13 subsidize AT&T/WorldCom's customers. It makes much more sense to charge on a
14 usage basis so that each CLECs pays for their fair share of the forward-looking costs they
15 cause Verizon VA to incur on their behalf.
16

17 **Q. Do you agree with WorldCom's claim that a usage-based rate structure is difficult
18 to administer and audit? (Goldfarb at 6.)**

19 A. No. WorldCom's claim is simply not credible. Verizon VA's proposed port and usage
20 UNE switching rate structure has been in place for years; and switched access costs have
21 been charged on a usage basis for decades. In fact, changing this rate structure at this
22 point would be difficult to administer. As AT&T witness Kirchberger stated: "AT&T,
23 and certainly other carriers as well, have established (or are establishing) business plans

^{4/} Direct testimony of Mr. Kirchberger at 15.

1 based on the current rate design which may be subject to change if the current rate design
2 were eliminated.”^{5/} Indeed, as Mr. Kirchberger acknowledged, a switching rate structure
3 based on usage “is the same rate design the Commission first established in its 1996
4 Local Competition Order and adopted by nearly every state in the country.”^{6/}

5
6 In short, Verizon VA’s current port and usage rate structure provides stability, and
7 imposes minimal administrative and auditing burdens on the parties. Usage-based rates
8 have been in place for decades, and are currently in place for UNEs across the country.
9 AT&T/WorldCom have offered no reason to change this rate structure.

10
11 **Q. AT&T suggests that the Commission may choose to implement WorldCom’s**
12 **proposal as an alternative rate design, in addition to the traditional port-and-usage**
13 **charge structure (Kirchberger at 14, Murray at 22-23). Does Verizon support this**
14 **optional rate structure?**

15 A. No. Not only would implementation of the flat rate option be inappropriate for the
16 reasons discussed above, an *optional* rate structure would add an additional layer of
17 arbitrage, administrative complexity and inefficiency to the system, and would all but
18 ensure that Verizon VA would not recover its forward-looking costs. Surprisingly,
19 AT&T acknowledges this arbitrage opportunity, stating that “a carrier would have an
20 incentive to purchase the flat rate option for high volume customers and the more

^{5/} *Id.*; see also First Report and Order, *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, CC Docket No. 96-98 (Aug. 8, 1996) at ¶ 810.

^{6/} Direct testimony of Mr. Kirchberger at 14.

1 traditional port-usage option for lower volume customers.”^{7/} Thus, if a CLEC has high
2 volume customers that exceed the average amount of usage, the CLEC would choose the
3 flat-rated port option. If the CLEC has low volume customers, it would choose the
4 usage-based option. Such a result would prevent Verizon VA from recovering its costs.
5

6 Mr. Kirchberger attempts to remedy this arbitrage opportunity by stating that a
7 particular CLEC must choose one option or another for all of its customers.^{8/} He ignores,
8 however, that Verizon VA faces arbitrage among various CLECs, even if a particular
9 CLEC cannot arbitrage among its various customers. For example, CLEC A may target
10 high volume customers and choose the port option, while CLEC B may target low
11 volume residential customers and choose the usage-based option. The result is the same:
12 Verizon VA will under-recover its forward-looking costs.
13

14 **Q. Should the wholesale switching rate structure be aligned with the switched access**
15 **rate structure?**

16 A. Yes. Aligning the rate structure for the circuit switching UNE with switched access
17 services, both intrastate and interstate, promotes pricing stability and equity. Today, the
18 rate structures for switched access services – both state and federal – are on a per minute
19 basis, as is most toll service. CLECs, moreover, charge other carriers to terminate local,
20 state and interstate traffic applying their own switched access and interconnection
21 minute-of-use charges.
22

^{7/} Direct testimony of Mr. Kirchberger at 13.

1 It would be unreasonable – and an unfair windfall to the CLECs – to require
2 Verizon VA to offer a flat switching rate for UNEs, while permitting the CLECs to turn
3 around and charge other carriers a per-minute-of-use charge for terminating traffic.
4 Indeed, carriers like AT&T/WorldCom that target high volume users (and thus are being
5 subsidized by low volume users if all switching costs were placed in the port) would reap
6 an enormous windfall because a larger number of calls are likely terminated to these high
7 volume customers.

8
9 The Commission should reject AT&T/WorldCom’s true agenda here and keep the
10 same UNE switching rate structure that has been in place for years, and which is
11 consistent with the rate structure for access and toll services.

12
13 **Q. Do you agree with AT&T/WorldCom’s claim that Verizon VA’s switching rate**
14 **structure may cause customers to alter their normal telephone usage and will reduce**
15 **network usage to inefficient levels? (Murray at 15, 20).**

16 **A.** No. AT&T/WorldCom miss the point. Verizon VA incurs usage sensitive costs on a
17 usage basis, regardless of the fact that it typically offers a flat rate to its customers. Thus,
18 Verizon VA’s UNE switching rate structure – which is based on cost causation principles
19 – has no bearing on how the CLECs price switching for their end user customers. Like
20 Verizon VA, each provider must make individual choices about how to structure end-user
21 rates in order to induce customer behavior. Indeed, Verizon VA must structure its rates
22 based on assumptions regarding its own customers’ likely use. Each telephone company

^{8/} Direct testimony of Mr. Kirchberger at 15.

1 must make its own determination of what customer rate structure will most efficiently
2 utilize network facilities.

3
4 In short, Verizon VA is entitled to recover its costs under the
5 Telecommunications Act of 1996, regardless of how the CLECs plan on pricing their
6 services.

7
8 **Q. Does a usage-based switching rate structure cause Verizon VA to over-recover its
9 costs, as AT&T/WorldCom claim? (Goldfarb at 5-7, Murray at 14-16.)**

10 A. Absolutely not. Verizon VA has developed its switching costs by factoring in the total
11 demand for ports, usage and vertical features, and placing them in the appropriate
12 categories of usage sensitive versus non-usage sensitive. Thus, Verizon VA's
13 methodology insures it neither over-recovers nor under-recovers costs. This
14 methodology is further explained in Verizon VA's cost panel testimony filed on July 31,
15 2001.

16
17 **Q. Will a usage-based switching rate structure deter competitive entry and give
18 Verizon VA an unfair advantage over its competitors, as WorldCom claims?
19 (Goldfarb at 5-7.)**

20 A. No. A switching rate structure that properly accounts for usage will allow Verizon VA to
21 most accurately recover its costs, but will have no effect on competition. As discussed
22 above, each carrier must independently determine its own customer rates based on the
23 actual costs incurred from providing service. In fact, a flat rate switching rate structure,

1 which would may lead to Verizon VA's under-recovering its costs, as explained above,
2 would deter facilities-based competition.⁹⁷

3
4 **III. CONCLUSION**
5 **(JDPL Issues II-1-II-1-d; II-2-c-d; IV-30; IV-36)**

6 **Q. Please summarize your conclusions.**

7
8 A. Verizon VA properly charges usage-sensitive costs on a per minutes-of-use basis. This
9 rate structure is consistent with cost causation principles and ensures that each CLEC
10 pays its fair share of usage costs. Placing usage sensitive costs in the port charge will
11 result in the smaller carriers – who target low volume customers – subsidizing the larger
12 carriers such as AT&T/WorldCom, who target high volume customers. In addition,
13 implementing the rate structure for UNE switching that it different than the rate structure
14 for switched access and other services will create an unreasonable windfall for large
15 volume carriers such as AT&T/WorldCom.

16
17 Verizon VA's proposed rate structure – as well as its rates – should be adopted.

18
19 **Q. Does this conclude your rebuttal testimony?**

20 A. Yes

21

⁹⁷ Of course, a carrier could choose to resell Verizon VA's switching services and therefore would be charged a flat rate, minus the resale discount.

Declaration of Harold E. West, III

I declare under penalty of perjury that the foregoing is true and correct. Executed this

27TH day of August, 2001.



Harold E. West, III