1 modifications were necessary and forward-looking and the extent to which they
2 will benefit Verizon's own operations (or those of its affiliates), as opposed to
3 being required solely for the provisioning of line sharing for unaffiliated
4 competitors.[123] Consistent with its own guidelines, the Commission should hold
5 Verizon to a strict burden of proof in justifying recovery claims for modifications
6 to Verizon's OSS in connection with line sharing. We do not believe that Verizon
7 has met this burden. Therefore, we recommend that Commission reject Verizon's
8 proposed charge unless and until it has provided the necessary documentation.
9 If the Commission should decide to make use of Verizon's proposed cost
10 study for line sharing OSS, we recommend that the Commission direct Verizon to
11 remove the software maintenance costs and to spread the one-time costs over ten
12 years. These modifications, along with corrections to Verizon's factors discussed
13 by AT&T/WorldCom's Recurring Cost Panel in its rebuttal testimony, results in a
14 charge of $0.54 per month per line.[124]

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123 *Line Sharing Order* at ¶ 106.

124 Because Verizon did not provide a projection of line sharing over ten years, or even the projection underlying its levelized demand projection (amortized over five years), we were not able to correctly calculate the levelized demand for ten years. Instead, we used Verizon's five year levelized demand as a proxy. This should tend to overstate the demand over which Verizon's proposed costs are spread.

1 **C. VERIZON'S REPORTED PER-LINE AND ORDER RELATED**
2 **COSTS ARE NOT REASONABLY RELATED TO LINE SHARING**
3 **AND SHOULD BE REJECTED.**

4 **Q. IS VERIZON'S ESTIMATE OF THE NON-RECURRING COST FOR**
5 **LINE SHARING ARRANGEMENTS REASONABLE?**

6 A. No. In recent state proceedings, Verizon has typically not included any specific
7 non-recurring cost analysis for line-sharing arrangements but instead has
8 suggested that the non-recurring cost and price for a Two Wire New Initial UNE
9 loop should apply to line-sharing arrangements. In response, Ms. Murray and
10 Mr. Riolo noted that there is no reason to believe that the costs to install an entire
11 loop would in any way parallel line-sharing costs.

12 In contrast to Verizon's prior attempt to force the round peg of (what it
13 claims as) Two Wire New Initial UNE loop costs into the square hole of line
14 sharing, our expectation is that if Verizon actually did a study of non-recurring
15 cost for line sharing, it would discover that, with the exception of running an
16 additional jumper, line-sharing costs somewhat less than a new UNE loop as line
17 sharing always begins with an existing retail account and complete records for a
18 existing customer and should only require the placement of a pair of jumpers in a
19 Verizon central office.

20 Ironically, Verizon appears to have responded to those concerns by adding
21 a separate entry into its study for line-sharing non-recurring costs that actually
22 shows a *higher* total cost for line sharing than for a new UNE loop.

1 **Q. DID VERIZON ACTUALLY STUDY THE NON-RECURRING COST TO**
2 **IMPLEMENT A LINE-SHARING ARRANGEMENT, AS ITS STUDY**
3 **OUTPUTS SEEM TO INDICATE?**

4 A. No. With the exception of the fact that Verizon (inexplicably) uses a slightly
5 lower forward-looking adjustment in the service order portion of its study for line
6 sharing than for new UNE loops, the two studies are identical. The results that
7 Verizon reports for line-sharing central office wiring also appear higher, but only
8 because Verizon has added together the central office wiring cost for both a Two
9 Wire New Initial UNE loop and Two Wire New Additional to create the Line
10 Sharing Initial result.

11 Verizon's superficially modified approach compounds the problems
12 inherent in its previous equation of line sharing with new UNE loop installation
13 and creates two interlocking layers of error. First, all of the problems related to
14 both the Two Wire New Initial UNE loop and Two Wire New Additional studies
15 also affect the line-sharing non-recurring cost analysis and must be similarly
16 corrected. If the Commission (inappropriately) makes any use of Verizon's
17 reported costs, it should further reduce the cost applied to line sharing to account
18 for the relative simplicity of line-sharing arrangement. Second, the Two Wire
19 New Initial UNE loop and Two Wire New Additional study analysis that Verizon
20 continues to apply contains numerous assumptions and resulting costs that are
21 obviously irrelevant to a line-sharing arrangement.

1 **Q. WHY ARE THE TWO WIRE NEW INITIAL UNE LOOP COSTS THAT**
2 **VERIZON RELIES ON OBVIOUSLY INCORRECT AS A BASIS FOR**
3 **LINE-SHARING COSTS?**

4 A. Verizon's UNE loop analysis contains numerous elements that are blatantly
5 irrelevant to the provision of line-sharing arrangements. Most prominently,
6 Verizon reported the same field installation costs for line sharing and the Two
7 Wire New Initial UNE loop. That result is plainly absurd even under Verizon's
8 own assumptions regarding the application of non-recurring costs for outside plant
9 loop activities. Line sharing *is not possible* unless Verizon already has a fully
10 functional retail line in place. Hence, it is simply not possible for the work
11 activity steps included in the field installation portion of the Verizon Two Wire
12 New Initial UNE loop study such as "place intermediate field X-Conn and NI" to
13 have any relevance whatever to line-sharing orders.

14 Even assuming that the Commission (incorrectly) found that Verizon's
15 reported central office wiring costs are reliable for Two Wire New Initial UNE
16 loops, they are unreasonable for line sharing. Roughly 40% of Verizon's total
17 reported time for central office wiring appears to be related to time spent verifying
18 that the order data is correct and resolving problems. Again, line sharing involves
19 placing an additional feature *on an existing line that is already in service*. Hence,
20 even if the Commission allows Verizon to build such poor performance standards
21 into its assumptions about new loop connections, one would expect a substantially
22 lower error rate once Verizon is working with existing loops (and whatever

problems that did occur would be Verizon's own doing, for which it should bear the costs).

Likewise, the first activity listed in Verizon's analysis of the Service Order non-recurring charge is to "Receive Local Service Request (LSR) from CLEC and print, review type and confirm the order request for new installation and/or account." It is mysterious why Verizon believes this step will not be fully automated for line sharing, particularly given the line-sharing OSS charge that the company seeks to levy. It is also obvious that the basic context of analyzing a "request for new installation and/or account" is not appropriate for line sharing.

D. THE COMMISSION SHOULD ASSUME AN EFFICIENT, COST-MINIMIZING SPLITTER CONFIGURATION.

Q. WHEN CALCULATING COSTS FOR LINE-SHARING OPTIONS, WHAT ASSUMPTION SHOULD THE COMMISSION EMPLOY CONCERNING THE PLACEMENT OF THE SPLITTER IN VERIZON'S CENTRAL OFFICE?

A. The Commission should assume that Verizon places the splitter in an efficient, cost-minimizing location. Placement of splitters at or near the MDF is the most efficient configuration in terms of both minimizing costs and avoiding long tie-cable runs.[125] Therefore, the Commission should calculate costs based on the

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[125] In addition to raising costs, long tie-cable runs may needlessly preclude some end users from obtaining line-shared DSL-based services from a provider other than Verizon or its data affiliate, because xDSL services are distance sensitive. Each unnecessary tie cable adds to the total distance, reducing the pool of customers that will be eligible for a competitor's offering.

1 assumption that Verizon will place splitters at or near the MDF (unless the
2 competitor requests that the splitter be placed in its collocation space). Verizon
3 VA has assumed the less efficient placement of splitters on a relay rack rather than
4 mounted on the frame.

5 Verizon could limit the conditions under which it allows efficient splitter
6 placement in such a way that only its affiliates could qualify for this efficient
7 configuration. The Commission should take steps to prevent Verizon from
8 conferring any economic advantage on its affiliates by virtue of Verizon's
9 unilateral control over the placement of splitters in its central offices.

10 If Verizon has decided that splitters must be placed in locations that
11 necessitate the use of more tie cables or the placement and removal of more
12 jumpers than would be necessary in an efficient MDF-mounted splitter
13 configuration, Verizon should be deemed to be the "cost causer" of the increased
14 number of tie cables and jumpers and should bear that cost, especially because
15 competitors bear the risk of service disruptions caused by alternate splitter
16 placement. Verizon always has the option of efficient placement of splitters
17 serving unaffiliated competitors.

18 The Commission should order prices for cross-connections and tie cables
19 that give Verizon the incentive to choose the efficient splitter placement option.
20 Our pricing recommendation is consistent with the Commission's recent
21 *Collocation Remand Order*. In that order, the Commission noted that:

22 > 92. An incumbent LEC, however, must assign
23 > space in accordance with the statutory requirement

> that it provide for physical collocation "on rates, terms, and conditions that are just, reasonable, and nondiscriminatory." We recognize that an incumbent LEC has powerful incentives that, left unchecked, may influence it to allocate space in a manner inconsistent with this statutory duty. We conclude that to meet the statutory standard, an incumbent LEC must act as a neutral property owner and manager, rather than as a direct competitor of the carrier requesting collocation, in assigning physical collocation space. To ensure that competitive concerns do not influence an incumbent LEC's space assignment decisions, we believe that we should enunciate principles that give more specific meaning to the incumbent's statutory duty to provide for physical collocation "on rates, terms, and conditions that are just, reasonable, and nondiscriminatory." Of course, state commissions should continue to play a primary role in resolving specific space assignment disputes.
>
> 93. First, we require that *an incumbent LEC's space assignment policies and practices must not materially increase a requesting carrier's collocation costs ....*[126]

As we demonstrate in the following sections, Verizon's failure to assume that the splitter is placed at or near the MDF has the effect of materially increasing the requesting carrier's cost to collocate its splitter; therefore, Verizon's splitter placement assumption does not result in costs that are consistent with the guidelines that the Commission enunciated in its *Collocation Remand Order*.

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[126] Fourth Report and Order in CC Docket No. 98-147, In the Matter of Deployment of Wireline Services Offering Advanced Telecommunications Capability, adopted July 12, 2001, ("Collocation Remand Order") at ¶¶ 92-93, emphasis supplied.

1 **E. VERIZON'S APPLICATION OF AN EF&I FACTOR TO**
2 **CHARGES FOR LINE SHARING IS INAPPROPRIATE.**

3 **Q PLEASE EXPLAIN THE PROBLEM WITH VERIZON'S APPLICATION**
4 **OF AN ENGINEER, FURNISH & INSTALL ("EF&I") FACTOR IN**
5 **CONNECTION WITH CERTAIN LINE-SHARING RATE ELEMENTS.**

6 A. Verizon applies EF&I factors to its projected material-only investment to develop
7 an estimate of total installed investment.[127] Verizon assumes an EF&I factor for
8 line-sharing elements that is not reasonably related to line sharing, thereby grossly
9 inflating many of its proposed line-sharing prices, which are based on this
10 estimate of installed investment.

11 **Q. WHAT LINE-SHARING ELEMENTS ARE AFFECTED BY VERIZON'S**
12 **INAPPROPRIATE APPLICATION OF THE EF&I FACTOR?**

13 A. The line-sharing elements affected by the inappropriate application of the EF&I
14 factor are the Splitter Installation non-recurring charge and the Administrative and
15 Support and Splitter Equipment Support recurring charges.

16 **Q. WHY IS THE EF&I FACTOR THAT VERIZON APPLIES TO LINE**
17 **SHARING INAPPROPRIATE?**

18 A. Verizon assigns an EF&I factor to costs of the splitter and splitter bay that is
19 based on historic costs for the "Digital Circuit Equipment (Subscriber Pair Gain)"
20 equipment account. Unlike digital circuit equipment like pair gain systems,
21 however, splitters and splitter shelves are simple and passive devices. Splitters

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[127] Verizon Cost Panel Direct at 43.

1 have no moving parts and are nothing more than a shelf into which splitter line
2 cards are placed and cabling is attached. Thus, splitters bear little in common
3 with sophisticated electronics equipment such as pair gain systems and cannot be
4 assigned the same EF&I factor.

5 The EF&I factor that Verizon uses to develop total installed investment
6 costs reflects the ratio of the company's total booked engineering and installation
7 costs from 1998 to its booked 1998 costs for equipment[128] included in the Digital
8 Circuit Equipment accounting category.[129] Verizon has not developed this factor
9 in a manner that provides a reasonable estimate of the efficient, forward-looking
10 investment related to line-sharing activities, because line-sharing activities and
11 related equipment such as splitters were almost certainly not included in the 1998
12 costs reflected in the EF&I factor.[130] As the Public Service Commission of
13 Maryland recently found, "the application of a factor-based methodology is most
14 persuasive when the plant type used as a proxy is consistent with the plant type
15 being priced."[131] One cannot simply presume, as Verizon has done, that an
16 installation factor developed by analyzing a group of activities that were

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128 Verizon Cost Panel Direct at 43.

129 Verizon Cost Panel Direct at 157. Verizon's EF&I for the digital circuit pair gain account is ***VERIZON PROPRIETARY ****** ********* **** ***** ** ****** ********** ********** **END VERIZON PROPRIETARY*** of estimated investments.

130 The factors are calculated using 1998 data; Verizon's ADSL offering was tariffed in September 1998. Therefore little, if any, line-sharing costs would have been included.

performed on equipment unrelated to line sharing—such as optical multiplexers—has any relevance at all to the efficient, forward-looking cost that Verizon will incur in connection with line-sharing installations. This conclusion would require an analysis of comparability and relevance of costs. Verizon does not appear to have performed such an analysis. Nor has Verizon provided an estimate of the time actually required to provision splitter shelves.

A direct estimate of the effort actually required to place splitters into operation, such as the one we provide below, confirms that Verizon's use of a historic, broad-gauge factor produces a wildly inflated result in this specific application.

Q. VERIZON'S COST PANEL ARGUES THAT THE ABSENCE OF LINE-SHARING FROM THE DEVELOPMENT OF THE EF&I IS NOT RELEVANT. IS THE PANEL CORRECT?

A. No. The application of the EF&I factor is only appropriately applied to services or elements whose cost experience is reflected or contemplated in the development of the factor. The factor approach is particularly inappropriate in the context of the new line-sharing functions because those activities did not contribute to Verizon's overall historic relationship between investment and installation costs. Moreover, by their very nature, the inclusion of these activities into Verizon's cost experience should lower the cost to investment ratio. Thus,

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[131] Public Service Commission of Maryland Order 76852 at 13-14.

1 the application of a company-wide factor in the derivation of line-sharing prices
2 will produce higher prices than justified because those prices will not reflect, even
3 on an average basis, the lower cost experience associated with line-sharing
4 activities.

5 The panel's testimony presents circular reasoning. The Cost Panel states
6 that "the absence of the expenses of installing splitters from the EF&I numerator
7 given the base year likely has a far greater effect on the EF&I factor than the
8 absence of the splitter material costs from the denominator," because "[t]he
9 material costs are relatively low compared to the installation costs, and thus
10 absence of the latter results in understatement of the factor, certainly not
11 overstatement."[132] But that is exactly the assumption that Verizon has not proved
12 or even, apparently, investigated. The Cost Panel's rationale rests wholly upon
13 the unsubstantiated assumption that the digital circuitry EF&I factor is the
14 appropriate comparison factor. The panel itself admits, "it is the relationship of
15 the expenses and investments that existed at such time that make the factor
16 relevant."[133] And yet, Verizon has shown no such relationship for line-sharing
17 here.

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132 Verizon Cost Panel Direct at 158.

133 *Id.*

1 **Q. IS THE ALTERNATIVE TO USE OF AN EF&I FACTOR INDIVIDUAL**
2 **CASE BASIS PRICING, AS VERIZON SUGGESTS[134]?**

3 A. No. The panel's argument here is truly baffling. It is entirely possible for Verizon
4 to develop its non-recurring labor costs by multiplying the *average* labor time
5 estimate for installing the cards by the relevant labor rate. Indeed, the bulk of
6 Verizon's own proposed non-recurring costs and charges are based on a "bottom-
7 up" assessment of tasks and task times. It is difficult to understand how Verizon
8 can now say such an approach is not possible with respect to line-sharing
9 elements.

10 **F. VERIZON'S PROPOSED RECURRING LINE-SHARING "ADMIN**
11 **& SUPPORT" PRICE IS OVERSTATED AND SHOULD NOT BE**
12 **APPLIED TO "OPTION A."**

13 **Q. DO YOU AGREE WITH THE MANNER IN WHICH VERIZON**
14 **PROPOSES TO APPLY THE LINE SHARING "ADMIN & SUPPORT"**
15 **PRICE?**

16 A. No. Verizon does not propose to purchase and provide actual splitters for
17 competitors under either of its options.[135] Nonetheless, Verizon does propose a
18 monthly recurring price of $27.69 (per 96-line shelf) for "Option A"
19 arrangements, purportedly to capture the operating expenses for the administration

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134 *Id.* at 156.

135 Under "Option A" the competitor would purchase and install its own splitter in its collocation space. Under "Option C," the competitor would purchase the splitter, but it would be installed in Verizon's space.

1 and support of the competitor-owned and operated splitter.[136] Verizon proposes a
2 $34.89 price (per 96-line shelf) for "Option C," which also includes maintenance
3 and repair costs. It is entirely inappropriate to apply the "admin and support"
4 factor to its "Option A." Indeed, Verizon has failed to demonstrate that it will in
5 fact incur these administration and support costs for either "Option A" or "Option
6 C" splitter arrangements.

7 **Q. WHY IS IT INAPPROPRIATE TO CHARGE COMPETITORS FOR**
8 **"ADMIN AND SUPPORT" UNDER "OPTION A" LINE-SHARING**
9 **ARRANGEMENTS?**

10 A. The recurring Line-Sharing "Admin & Support" charge proposed by Verizon is
11 clearly not applicable in "Option A"—where the competitor owns and installs the
12 splitter and maintains the splitter in the competitor's own collocation space. The
13 factor that Verizon uses to develop this supposed cost is based on historic
14 company costs for supporting equipment that Verizon owns, installs and manages
15 in its own space to provide its own services. No part of the numerator or
16 denominator in that calculation included equipment that a *competitor* owns,
17 maintains, installs and manages. Hence, there is no basis whatever for concluding
18 that any of the costs in the Verizon factor pertain to equipment in a competitor's
19 collocation space. The Commission should reject any monthly recurring Verizon
20 price related to "Option A."

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136 Verizon Exhibit Part B-15, Section 3.1.

1 Verizon has claimed nonetheless that, in the "Option A" scenario, it
2 should receive compensation to recover costs associated with its support staff who
3 work with competitors (wholesale marketing),[137] "other support,"[138] which
4 consists of "support expenses such as information management, research and
5 development, and procurement expenses, as well as the capital requirements
6 associated with non-revenue producing investments in motor vehicles, special
7 work equipment, land and buildings (excluding central office buildings), general
8 purpose computers, furniture, and official communications and support
9 equipment,"[139] and common costs. Verizon has provided no support for its
10 assertion that a competitor's decision to collocate a splitter causes Verizon to
11 incur any of these types of cost.
12 Moreover, these purported costs duplicate costs that Verizon recovers
13 from competitors through other charges. In the "Option A" configuration, the
14 splitter is located in the competitor's collocation space. The competitor already
15 pays Verizon a monthly recurring charge for collocation space, which recovers

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137 Remarkably, Verizon apparently believes its litigation of line-sharing issues to be a legitimate part of these administrative costs. In a recent Maryland proceeding on line sharing, Verizon witness Amy Stern responded to the question "Are the CLECs being charged for you to be here to litigate this issue today as part of a marketing expense?" by saying that "I view my job as kind of an overhead of doing business with CLECs. As such, I think the corporation is entitled to recover the cost of my salary and the other overheads related to doing business with CLECs." Public Service Commission of Maryland's Case 8842, Tr. at 725, lines 10-17.

138 Verizon Exhibit Part B-15, Section 3.1.

139 Verizon Cost Panel Direct at 64-65.

costs associated with the support of equipment placed in that area (including DC power, air conditioning, *etc.*).

There is no reason why the competitor should pay an additional charge merely because it collocates a splitter (as opposed to a DSLAM or any other piece of equipment). None of the costs for which the charge supposedly compensates Verizon (for example, motor vehicles and Research and Development) will change one iota based on the investment that Verizon competitors make in splitters, nor will that investment cause Verizon to incur any additional costs in those areas. Likewise, where Verizon does not incur a cost, its common overhead costs cannot be affected. Indeed, at no point has Verizon sought to charge competitors for maintenance of any other equipment they place in their own collocation spaces. The Commission should not permit Verizon to recover maintenance or other support costs based on the equipment that a competitor opts to place in its collocation space. Verizon can provide no basis whatever for singling out splitters for this unique additional cost recovery treatment when no other combination of collocated equipment results in such an additional charge. Even more to the point, a competitor's decision to place 1, 100 or 1,000 splitters in a collocation cage has no effect on Verizon's administrative and support costs.

Q. IS THERE AN ADDITIONAL PROBLEM WITH VERIZON'S PROPOSAL TO CHARGE ANY FACTOR-BASED AMOUNT FOR LINE SHARING "ADMIN & SUPPORT" IN "OPTION A"?

A. Yes. By inappropriately tying calculation of Verizon's costs to investment that a competitor makes for deployment in its own space, Verizon's proposal would

1 produce bizarre results that would require equally bizarre findings to support. For
2 example, to maintain a consistent approach to all costs under this theory, the
3 Commission would need to continually monitor the cost of the equipment that
4 competitors purchase and deploy in collocation arrangements and adjust Verizon's
5 factors and prices according to changes in those costs. Alternatively, the
6 Commission would need to find that the investment for splitters (and only
7 splitters) that competitors buy and place into collocation space will affect
8 Verizon's costs differently from any other type of equipment (*e.g.*, DSLAMs) that
9 competitors have deployed or will deploy in collocation space in the future. There
10 is simply no basis for either of these nonsensical results.

11 **Q. HAVE STATE REGULATORS REJECTED VERIZON'S ATTEMPTS TO**
12 **APPLY THE LINE-SHARING "ADMIN & SUPPORT" CHARGES BASED**
13 **ON SPLITTER INVESTMENTS TO COMPETITORS SELECTING**
14 **"OPTION A"?**

15 A. Yes. The Public Service Commission of Maryland recently agreed that:

16 . . . Verizon should be prohibited from imposing
17 A&S charges on CLECs under Option A. The
18 Arbitrator is not persuaded by the record evidence
19 nor the arguments of Verizon that there is a causal
20 relationship between a CLEC placing equipment in
21 its collocation space and Verizon's proposed A&S
22 costs. The CLEC chooses the splitter, orders it,
23 installs it in its collocation space and, finally,
24 connects it. It is obvious to this Arbitrator that it is
25 the CLECs who bear the substantial portion, if not
26 all, of the costs under this scenario. In addition, as
27 Rhythms/Covad and Staff note, the fees that CLECs
28 already pay for collocation space should cover any
29 support costs necessitated by their use of the space.
30 It should also be noted that Verizon currently
31 applies an overhead factor of 12 percent to UNEs.

> Accordingly, the Arbitrator finds that Verizon should be prohibited from imposing any A&S charges upon CLECs under Option A.[140]

The Maryland Commission noted that:

> To the extent that Verizon incurs costs related to the product design of a collocated splitter, then they have already recovered those costs through the Engineering/Implementation Fee that is imposed on the collocating CLEC. Verizon has not established that it would incur additional product design costs beyond those costs recovered through the collocation engineering augmentation fee. To order additional recovery of these costs would equate to double recovery.[141]

The Commission should similarly reject this attempt by Verizon to charge competitors a bogus investment-based charge when it is the competitor that has made the investment, and not Verizon.

Q. ON WHAT BASIS DO YOU CONCLUDE THAT THE LINE-SHARING "ADMIN & SUPPORT" COST APPLICABLE TO "OPTION C" SHOULD BE LOWER THAN THAT REPORTED BY VERIZON?

A. Verizon developed its proposed "admin and support" charge by applying the same EF&I factor discussed above to arrive at a total installed investment figure, and then by applying the network, marketing and other support factors for the digital circuit equipment account to that amount.[142]

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140 Public Service Commission of Maryland, Order No. 76852, at 26-27.

141 *Id.*

142 Verizon Exhibit Part B-15, Section 1.3.

1 For the reasons we discussed above, Verizon's methodology, which
2 applies average, historic, company-wide experiences to the development of line-
3 sharing costs, necessarily overstates those costs. Verizon's proposed monthly
4 charge of $34.89 per 96-line splitter shelf—even in the case of "Option C"—is not
5 justified. As with Verizon's other proposed line-sharing charges, an overly high
6 price will have a deleterious impact on competitive DSL activity and the spread of
7 advanced services throughout Virginia.
8 Verizon used a Digital Circuit Annual Cost Factor ("ACF") that does not
9 accurately reflect costs it might reasonably incur to support a shelf of splitters.
10 The splitter, which is really the card inside the chassis, is a *passive* device—that
11 is, it contains no active electronic components and requires no power supply. It is
12 a simple line filter that has a long life and requires little, if any, maintenance.
13 Moreover, even if one assumes some kind of catastrophe that forced Verizon to
14 replace the entire splitter card shelf each year, the labor cost would not be much
15 more than that for installing the entire line-up in the first place. Based on
16 Mr. Riolo's experience with splitters, one hour of maintenance per year would be
17 more than sufficient. Therefore we propose that the recurring maintenance charge
18 for splitters under "Option C" be set at $4.05 per month per 96-line splitter.

1 **G. VERIZON'S SPLITTER INSTALLATION CHARGE IS**
2 **EXCESSIVE.**

3 **Q. IS VERIZON'S PROPOSED SPLITTER INSTALLATION CHARGE**
4 **REASONABLE?**

5 A. No. Verizon is proposing a non-recurring Splitter Installation charge of
6 $1,487.52[143] to apply to competitors that elect to have Verizon install splitters in
7 conjunction with "Option C."[144] As we have already discussed, Verizon's
8 inappropriate application of an EF&I factor based on historical data from its
9 digital circuit equipment accounts results in Verizon's excessive estimate of line-
10 sharing splitter installation costs. Verizon's factor produces a result that is more
11 than an order of magnitude beyond any reasonable cost for installation and
12 connection of a shelf of splitters. Indeed, Verizon's assumed cost translates into
13 roughly 33 hours of installation labor[145] (using Verizon's own estimated labor rate
14 for a central office frame technician), far beyond what a simple splitter installation
15 would require. The mounting of the shelf involves inserting four screws and

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143 Verizon Exhibit Part B-15. (In its testimony, Verizon's Cost Panel says the charge would be $1,482. *See* Verizon Cost Panel Direct at 159.)

144 Verizon does not propose to apply this charge to competitors who elect "Option A." This proposed treatment is obviously correct, because competitors electing "Option A" are responsible for their own splitter installation. However, contradicting its own approach, Verizon does include this cost when it calculates the supposed "Administrative and Support" element for "Option A."

145 ***** BEGIN VERIZON PROPRIETARY** ******* ********** ******* ** ******* ********** ********** **********

installing the splitter cards by merely sliding each card into a slot. As is readily apparent, this work effort would only take minutes to accomplish, even for an unskilled technician.

Furthermore, many of the costs supposedly captured by EF&I factor will have already been paid by the competitor through other charges. The "*engineering*" component of the work needed to prepare splitters for use could encompass tasks such as surveying, inspecting, and selecting the site as well as performing record keeping and coordinating items that are required to have a given equipment item ready for service (power, racking, air conditioning, *etc.*). The "*furnishing*" entails purchasing materials and getting them to the selected site, whereas "*installation*" describes the assembly of the item into its final design. In the case of line splitters located in Verizon space, competitors will have already paid for most of the supporting "engineering and furnishing" before actual splitter cards are installed. Indeed, Verizon itself asserts that most (if not all) of these activities are performed as part of collocation augmentation, for which Verizon imposes a separate charge.[146] Hence, virtually all of whatever engineering would be required has already been accomplished, and the competitor will have already paid for that work through its collocation charges.

********** ********** ********** **END VERIZON PROPRIETARY*****

146 *See* Verizon New Jersey's Response to Covad Request 1-8, New Jersey Board of Public Utilities, Docket TO00060356.

Q. WHAT ACTION DO YOU RECOMMEND THE COMMISSION TAKE WITH RESPECT TO SPLITTER INSTALLATION PRICES APPLICABLE TO "OPTION C"?

A. The Commission should reject the excessive proposed installation charge that Verizon developed using a factor-based approach and instead replace Verizon's installation costs with a direct estimate of splitter installation costs. Verizon should develop its non-recurring labor costs by multiplying a reasonable average labor time estimate for installing the cards by the relevant labor rate. A reasonably competent technician could accomplish this entire "EF&I" task in substantially less than 30 minutes. (Recall that the "Engineering" portion of the task has already been performed, and paid for, as part of the collocation augmentation.)

H. COMPETITORS SHOULD NOT BE FORCED TO PAY TO CORRECT VERIZON'S PROVISIONING PROBLEMS THROUGH ITS PROPOSED COOPERATIVE TESTING CHARGE.

Q. WHAT IS VERIZON'S PROPOSED CHARGE FOR COOPERATIVE TESTING INTENDED TO RECOVER?

A. Verizon proposes a non-recurring charge of $30.78, which appears intended to recover the labor costs associated with coordinating with a competitor and performing continuity testing on a DSL-compatible loop on the due date for the loop's installation.[147]

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[147] Verizon Cost Panel Direct at 142-144.

1 **Q. SHOULD THE COMMISSION APPROVE VERIZON'S PROPOSED**
2 **CHARGE FOR COOPERATIVE TESTING?**

3 A. No. We understand that the requirement for cooperative testing was established
4 in New York proceedings because Verizon-New York was providing many DSL-
5 capable loops to competitors that did not even meet basic continuity requirements.
6 Verizon's own provisioning difficulties are therefore the cause of the need for
7 cooperative testing, and competitors should not be forced to bear the costs of
8 Verizon's inefficiencies. Verizon-New York's performance problems caused both
9 Verizon-New York and its competitors to incur additional manual activity costs
10 that neither company would choose to incur if Verizon-New York simply
11 provisioned loops as required in its interconnection agreements. The same will
12 hold true for Verizon VA.

13 The need for cooperative testing to make sure that Verizon delivers
14 unbundled loops in compliance with its contractual obligation already forces
15 competitors to incur costs that they should not have to bear. Allowing Verizon to
16 inflate competitors' costs further by imposing its share of the cooperative testing-
17 related costs on competitors would be bad public policy, as the Massachusetts
18 Department[148] and Maryland Commission[149] recognized. Verizon will have every

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148 "It is inappropriate to permit Verizon to levy a 'cooperative testing' charge on CLECs, which is based on costs that are caused by provisioning difficulties experienced by both Verizon and CLECs for stand-alone xDSL loops ... The record shows that CLECs already incur their own cost for the cooperative test. Moreover, the record is clear that Verizon believes such testing is 'mutually beneficial'; therefore, Verizon should share in
(continued)

1 incentive to provide competitors with poor service if it can shift the cost of poor
2 performance onto its competitors.

3 **Q. IF THE COMMISSION CONSIDERED ADOPTING CHARGES FOR**
4 **COOPERATIVE TESTING, SHOULD ONLY VERIZON IMPOSE THOSE**
5 **CHARGES?**

6 A. No. If the Commission considers any charges for cooperative testing, which we
7 do not believe it should, the Commission should offset those charges by the costs
8 that competitors will incur for testing services that Verizon has not properly
9 provisioned. Only after Verizon has demonstrated that it can sustain delivery of
10 loops at an acceptable level of quality should the Commission consider allowing a
11 charge for optional cooperative testing as requested by a competitor.

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the cost of cooperative testing by absorbing all of its own costs associated with this tests as CLECs do. ... Finally, the Department agrees that shifting the costs of this test to CLECs relieves Verizon of an incentive to improve its loop performance." *Massachusetts Order* at 113.

149 "The Commission finds that each party should bear its own costs with respect to Cooperative Testing. Both parties, the ILEC and the CLEC, enjoy the benefits of engaging in cooperative testing and, as such, it would be grossly unfair to require CLECs to bear the burden of paying for their costs as well as for Verizon's. Additionally, Verizon, not the CLEC, has the duty and obligation of delivering a functioning high frequency portion of the loop to the CLEC ordering the line sharing UNE. Verizon's argument that cooperative testing is necessary for it to comply with this obligation is not compelling. The Commission believes that the proper allocation of the costs for cooperative testing is for each party to shoulder its own expenses." Public Service Commission of Maryland Order 76852 at 39.