

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

<b>Investigation by the Department on its own</b>	<b>§</b>	
<b>Motion into the Appropriate Pricing, based</b>	<b>§</b>	
<b>upon Total Element Long-Run Incremental</b>	<b>§</b>	
<b>Costs, for Unbundled Network Elements and</b>	<b>§</b>	<b>D. T. E. 01-20</b>
<b>Combinations of Unbundled Network Elements,</b>	<b>§</b>	
<b>and the Appropriate Avoided Cost Discount</b>	<b>§</b>	
<b>for Verizon New England Inc. d/b/a Verizon</b>	<b>§</b>	
<b>Massachusetts' Resale Services</b>	<b>§</b>	

**PANEL TESTIMONY OF VERIZON MASSACHUSETTS  
ON COSTS AND RATES FOR  
UNBUNDLED NETWORK ELEMENTS  
AND RELATED WHOLESALE SERVICES**

**Members of the Panel:**

**Donald Albert  
Michael Anglin  
John Livecchi  
Nancy Matt**

**May 4, 2001**

1    **I.     PURPOSE OF THE TESTIMONY**

2    Q.    What is the purpose of this testimony?

3    A.    In accordance with the Department’s *Vote and Order* of January 12,  
4           2001, this testimony is submitted by Verizon Massachusetts (“Verizon  
5           MA” or the “Company”) to present its recurring cost studies for  
6           network elements (and certain related services) offered by Verizon  
7           MA to its CLEC customers. Here we take a fresh look at costing and  
8           pricing issues, incorporating the latest available data, guided by all  
9           relevant rulings of the Department and the FCC (including the FCC’s  
10          *UNE Remand Order*<sup>1</sup>).

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12   **II.    THE WITNESS PANEL**

13   Q.    Who are the members of the witness Panel sponsoring this  
14          testimony?

15   A.    The members of this Panel are: Donald Albert, Michael Anglin, Nancy  
16          Matt, and John Livecchi. In addition, we rely on other testimony  
17          presented in this case. Dr. William Taylor is submitting testimony

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<sup>1</sup> *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98, Third Report and Order and Fourth Further Notice of Proposed Rulemaking (rel. November 5, 1999).

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1 discussing the economic principles guiding the development of these  
2 studies. Dr. James Vander Weide is submitting testimony on the cost  
3 of capital. Mr. Allen Sovereign is submitting testimony on  
4 depreciation (asset lives).

5 Q. What role did each member of this Panel play in the preparation of  
6 this testimony and the associated studies?

7 A. Although all members of this Panel have reviewed and support this  
8 testimony in its entirety, each Panel member assumed primary  
9 responsibility for specific segments of the testimony. Each Panel  
10 member relies on the facts and analyses developed by the other  
11 Panel members in their areas of primary responsibility. Specifically:

- 12 • **Mr. Albert** had primary responsibility for issues relating to the  
13 utilization factors and network architecture, with the exception  
14 of the loop.
- 15 • **Mr. Anglin** had primary responsibility for the development and  
16 review of the costing principles and methodologies used in the  
17 studies, as well as being specifically responsible for investment  
18 loadings, the development of Annual Cost Factors (“ACFs”),  
19 the local loop studies, and Enhanced Extended Link (“EEL”)  
20 testing costs.
- 21 • **Ms. Matt** had primary responsibility for the cost studies for high  
22 capacity loops, switching, transport, signaling systems, and  
23 Service Management Systems (“SMS”), and miscellaneous  
24 studies.
- 25 • **Mr. Livecchi** had primary responsibility for issues relating to  
26 the utilization factors and network architecture associated with  
27 the loop.

1 Common Overhead expense). Applying a Common Overhead factor,  
2 developed in such a manner, to the element and activity sub-  
3 expenses of a particular jurisdiction, will assign the appropriate  
4 portion of Common Overhead allocable to that jurisdiction and no  
5 more.

6 Q. What are the ACFs used by the Company in this filing?

7 A. The following forward-looking ACFs were developed for this filing:

- 8 1) Depreciation, Return, Interest and Federal Income Taxes  
9 ACFs;
- 10 2) Property and Other Taxes ACFs;
- 11 3) Network ACFs;
- 12 4) Wholesale Marketing ACF;
- 13 5) Other Support ACF;
- 14 6) Common Overhead ACF;
- 15 7) Gross Revenue Loading ACF, and
- 16 8) Right to Use (RTU) ACF.

17 **1. Depreciation, Return, Interest, and Federal**  
18 **income Tax ACFs**

19 Q. What depreciation parameters were used in calculating these ACFs?

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1 A. Verizon MA's calculation of depreciation reflects the forward-looking  
2 depreciation lives and net salvage values presented in Mr.  
3 Sovereign's testimony filed separately in this proceeding.

4 Q. What cost of capital was used in the studies presented in this  
5 proceeding?

6 A. The studies reflect the use of a 12.6 percent cost of capital. As  
7 shown by the testimony of Dr. Vander Weide, the use of this cost of  
8 capital is conservative and serves to understate Verizon MA's  
9 forward-looking cost of capital.

10 Q. How were the Depreciation, Return, Interest and Federal Income Tax  
11 ACFs calculated in the TELRIC studies presented here?

12 A. The forward-looking depreciation lives were used as inputs to VCost,  
13 which calculated for each year of the plant asset's life the book  
14 depreciation and tax depreciation as well as the associated return,  
15 interest and federal income tax requirements. These results were  
16 then levelized over the life of the asset.

17 Q. How else is the cost of capital used in the Company's studies?

18 A. Besides being used in determining the return, interest and federal  
19 income tax components associated with plant investments, this cost  
20 of capital is employed in the various levelizing algorithms used  
21 throughout the Company's cost studies.