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January 10, 2011

Catrice C. Williams, Secretary
Department of Telecommunications and Cable
1000 Washington Street, Suite 820
Boston, Massachusetts 02118-6500

Re: D.T.C. 10-2 – Petition of Choice One Communications of Massachusetts Inc., Conversent Communications of Massachusetts Inc., CTC Communications Corp. and Lightship Telecom LLC for Exemption from Price Cap on Intrastate Switched Access Rates as Established in D.T.C. 07-9

Dear Ms. Williams:

Enclosed for filing in the above-referenced matter is the Supplemental Testimony of Ann Amalia Dean and Paul B. Vasington on behalf of Verizon New England Inc., d/b/a Verizon Massachusetts, MCImetro Access Transmission Services of Massachusetts, Inc., d/b/a Verizon Access Transmission Services, MCI Communications Services, Inc., d/b/a Verizon Business Services, Verizon Long Distance LLC, and Verizon Select Services, Inc. (collectively "Verizon").

Thank you for your attention to this matter.

Respectfully submitted,

Richard C. Fipphen

Enclosure
cc: Lindsay DeRoche, Hearing Officer (3)
Service List

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND CABLE

Petition of Choice One Communications of Massachusetts, Inc., Conversent Communications of Massachusetts, Inc., CTC Communications Corp. and Lightship Telecom LLC for Exemption from Price Cap on Intrastate Switched Access Rates as Established in D.T.C. 07-9	)	**D.T.C. 10-2**

SUPPLEMENTAL TESTIMONY OF

ANN AMALIA DEAN AND PAUL B. VASINGTON

ON BEHALF OF VERIZON

January 10, 2011

INTRODUCTION

Q. PLEASE STATE YOUR NAMES, TITLES, AND BUSINESS ADDRESSES.

A. My name is Paul B. Vasington. I am a Director – State Public Policy for Verizon. My business address is 125 High Street, Boston, Massachusetts 02110.

My name is Ann Amalia Dean. My address is 13100 Columbia Pike, B30A, Silver Spring, Maryland, 20904. I am a Senior Consultant in Verizon's Strategic Costs and Analysis organization.

Q. ARE YOU THE SAME PAUL B. VASINGTON AND ANN AMALIA DEAN WHO PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF VERIZON'S SUPPLEMENTAL TESTIMONY?

A. Verizon's direct testimony, filed November 1, 2010, demonstrated that One Comm's cost study does not provide a reasonable justification of the costs that One Comm incurs to provide intrastate switched access services in the Commonwealth of Massachusetts. In response to the testimony of Verizon and other intervenors, on December 15, 2010, One Comm filed the rebuttal testimony of Messrs. Webber and Fischer and Dr. Ankum, along with an updated cost study. The revised cost study increases One Comm's estimated switched access costs in Massachusetts by more than 12%. In their "rebuttal" testimony, One Comm's witnesses include new evidence and new argument not presented in their direct testimony. On December 30,

2010, the Hearing Officer permitted intervenors to file additional testimony to reply to the new matters presented in the One Comm rebuttal filing.

Q. PLEASE IDENTIFY THE INCREASES IN SWITCHED ACCESS COSTS SHOWN IN ONE COMM'S REVISED COST STUDY.

A. One Comm's revised cost study increases its claimed costs per minute for switched access service by 12.65%. This increase consists of increases in (1) direct costs of 12.70% (direct loop costs increased by 16.04%, the direct aggregation costs by 9.68%, direct transport direct trunk termination costs by 17.43%, and the trunk-to-trunk switching costs by 5.53%); (2) the common and shared and common cost per minute by 12.60%; and (3) the bad debt expense by 10.34%.

Q. WHAT UPDATES DID ONE COMM PROPOSE IN ITS REBUTTAL TESTIMONY TO INCREASE ITS PURPORTED COSTS OF SWITCHED ACCESS SERVICES?

A. One Comm increased its claimed costs of switched access services by increasing the cost of factors applied to investments and by changing the voice/data allocator to allocate additional costs to switched access.

VOICE/DATA ALLOCATOR

Q. PLEASE COMMENT ON ONE COMM'S PROPOSAL TO ATTRIBUTE EVEN MORE OF ITS DATA COSTS TO VOICE SERVICES.

A. In our direct testimony, we demonstrated that One Comm's use of a voice/data allocator was inappropriate for use in an incremental cost study for switched access service, and, even if it were appropriate, that the manner in which One Comm determined its voice/data allocator was wrong. *See* Verizon Panel Testimony at 53-

57. Rather than attempt to show how Verizon's analysis of the voice/data allocator might be flawed, Mr. Webber's rebuttal testimony instead switched to a new methodology and a new study that purportedly justify a higher allocation of costs to voice services – higher than One Comm's original factor and much higher than the factor developed by Verizon. One Comm's original NUCA model had used data from a "representative" central office to determine the allocation of costs between voice and data services. *See* Webber Rebuttal at 7. Now that Verizon has demonstrated that Mr. Webber's initial claim is unsupported even by his own data, One Comm seeks to rely on a new study of all active DS0-level circuits across One Comm's network to justify a new (and even higher) voice/data factor. *See* Webber Rebuttal at 6-10.

Q. IS THE NEW EVIDENCE A REASONABLE BASIS FOR ALLOCATING DATA COSTS?

A. No. Setting aside the issue of whether Mr. Webber's use of a voice/data allocator is appropriate in a switched access cost study (which it is not), the new method is no better than the method used in his direct testimony. In either case, Mr. Webber makes no attempt to show that the method used establishes an appropriate *forward-looking* estimate of the use of One Comm's network for voice and data services. Indeed, the new methodology looks at One Comm's *existing* network and simply assumes, without appropriate justification, that the historic data is the best evidence of the voice/data split on a forward-looking basis.

UPDATES TO COST FACTORS

Q. DO YOU AGREE WITH ONE COMM'S INCREASES TO THE INVESTMENT FACTORS?

A. No. In his rebuttal testimony, Mr. Fischer proposes to update the factors applied to investments by increasing (1) the Capitalized Software factor by 2%; (2) the Telco Installation factor by 120%; and (3) the Capitalized Leasehold Improvement factor by 25%. The fundamental problem with the "updated" factors is that they are as unsupported as the original factors.

Q. PLEASE EXPLAIN.

A. Cost studies gain their reliability by the scope and detail of the cost information that goes into them, including, detailed records that show the company's job function codes, field reporting codes, cost element codes, time reporting, etc. Detailed records should be included in a cost study to show how activities and investments are mapped. One Comm's cost study fails to provide sufficient details to ensure that its results are reliable. For example, One Comm does not use job function codes or cost centers. One Comm provided only sparse documentation to support its cost factors. As with the original factors, without a detailed mapping of activities to accounts, the proposed factor revisions cannot be used with any degree of confidence.

VERIZON'S HOST/REMOTE ARCHITECTURE

Q. DOES VERIZON'S HOST SWITCH/REMOTE SWITCH ARCHITECTURE HAVE ANY RELEVANCE TO WHETHER ONE COMM SHOULD INCLUDE LOOP COSTS IN ITS ACCESS INCREMENTAL COST STUDY?

A. No. In his rebuttal testimony, Dr. Ankum attempts to find similarities between Verizon's network architecture, in which Verizon uses remote switches to serve sparsely populated areas, and One Comm's network architecture, in order to support his argument that One Comm's cost study appropriately included the costs of collocation, aggregation and transport facilities between the leased collocation sites and the One Comm network. Ankum Rebuttal at 75-78. This comparison is fundamentally flawed.

Q. PLEASE EXPLAIN.

A. In his rebuttal testimony, Mr. Webber argues that the facilities between One Comm's leased collocation facilities and its switches are all transport or interoffice facilities, relying upon Dr. Ankum's analysis. *See* Webber Rebuttal at 21-23. This contention is incorrect. The aggregation equipment located in One Comm's leased collocated facilities are part of One Comm's leased loop plant and are the result of a business decision by One Comm not to build *its own* loop plant, but, rather, to rely on leased facilities obtained from other carriers, including Verizon. This business decision was undoubtedly driven by a determination that it was more cost-effective to lease facilities (and have "longer loops") than it was to either build its own loop plant or deploy more switches.

Further, Dr. Ankum's suggestion that One Comm's aggregation equipment is analogous to a Verizon remote switch is baseless. *See* Ankum Rebuttal at 75-78. First, unlike a remote switch, One Comm's aggregation equipment cannot switch telephone calls. That FCC rules do not permit the collocation of switching equipment, suggested by One Comm as the reason for its network architecture, is simply a red herring, because One Comm certainly has the right to deploy switches closer to its customers if it chooses (for example, by leasing space in buildings other than ILEC central offices). One Comm has simply made a business decision that it is cheaper to install aggregation equipment in leased collocation space than it is to buy more switches and lease real estate to house them. Second, due to the capabilities of a remote switch, the connecting facility between a remote and a Verizon host switch typically has one channel for every six end users. In contrast, the leased transport facilities between a One Comm collocation site and a One Comm switch have one transport DS0 channel for each end user, confirming that One Comm's collocated aggregation equipment is simply one part of the loop.

Moreover, aside from the semantic argument of whether equipment is part of the "loop," the function of One Comm's aggregation equipment is to connect an end user to a switch, providing access to the public switched telephone network. Thus, One Comm would incur the costs of its aggregation equipment even if it did not offer switched access service, so those costs are attributable solely to local exchange service, not to switched access.

SPECIAL ACCESS

Q. PLEASE DISCUSS DR. ANKUM'S CONTENTION THAT THERE IS "NEW INFORMATION" ON THE ISSUE OF WHETHER SWITCHED ACCESS RATES ARE SUBJECT TO COMPETITION. (*SEE* ANKUM REBUTTAL AT 24-29.)

A. First, as Dr. Ankum notes, this "issue" has already been decided by the Department in D.T.C. 07-9, and he is raising it only because he claims that AT&T is attempting to relitigate other findings from D.T.C. 07-9. So, even on his own terms, the issue is irrelevant to this proceeding.

Second, the "new" information does not demonstrate that switched access is competitive, as we will discuss below.

Q. WHAT IS THE ALLEGEDLY NEW INFORMATION?

A. According to Dr. Ankum, the "new" information consists of the following: a 16-year old academic study arguing that special access provides a check on switched access rates; statements that Mr. Vasington and an AT&T witness made in a New Jersey proceeding in 2009; a "break-even" analysis done by Dr. Ankum, comparing special access and switched access; and a statement made by Dr. Pelcovits in his testimony in this case related to originating switched access.

Q. PLEASE EXPLAIN THE TERM "SPECIAL ACCESS" AND HOW IT IS DIFFERENT FROM SWITCHED ACCESS SERVICES.

A. Newton's Telecom Dictionary defines special access as:

> The lease of private, dedicated circuits along the network of an ILEC or [competitive access provider], which run from or to the long distance carriers (sic) [point-of-presence].[1]

Thus, a special access line is "dedicated" to the single purpose of carrying the end-user customer's long distance traffic to and from its interexchange service (long distance) provider. Special access always represents an *additional* line to the customer's premises, separate and apart from the connection between the end-user customer and its local service provider. A customer using special access thus necessarily incurs additional charges – in the form of the monthly charges associated with the special access line – above and beyond local service(s) charges. A federal court has explained special access and switched access as follows:

> There are two types of access service: "switched access" and "special access." Switched access service requires the creation of a connection between the caller and the long distance company on a "call-by-call" basis. This entails (1) a connection between the caller and a local LEC switch, (2) a connection from the LEC switch to the SWC ("Serving Wire Center") (interoffice transport), and (3) an entrance facility which connects the SWC and the long distance company's [point of presence]. Switched access can either be dedicated to a particular IXC ("dedicated transport" or "direct trunked transport") or shared among IXCs. "Special access" service, on the other hand, uses dedicated lines between the customer and the IXC's local POP. Switched access is used by most residential customers. Most users of special access services are companies with high call volumes.[2]

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1 *See* Newton's Telecom Dictionary, 23rd Updated and Expanded Edition.

2 *WorldCom, Inc. v. FCC*, 238 F.3d 449, 453 (D.C. Cir. 2001).

Q. IN WHAT TYPE OF SITUATION WOULD A CUSTOMER TYPICALLY USE SPECIAL ACCESS RATHER THAN SWITCHED ACCESS?

A. Special access is used almost exclusively by large business customers that have a Private Branch Exchange ("PBX")[3] at their premises. The additional cost of the special access line and the need for specialized equipment effectively rules out its use by residential and small business customers. Special access also cannot be used without the customer having first arranged for facilities to be put in place. Finally, because special access is associated with high-volume customers, it is almost always provided as a "T-1" facility, which is a facility equivalent to 24 voice-grade circuits.[4]

Q. DO YOU AGREE WITH DR. ANKUM THAT SPECIAL ACCESS SERVICES ARE A SUBSTITUTE FOR SWITCHED ACCESS SERVICES?

A. Not in the sense that the availability of "substitute" special access imposes a competitive check on switched access rates. It is true that special access is an alternative mechanism for originating or terminating a long distance call. Special access is certainly not a "substitute" for switched access in the sense that it is equivalent in terms of the nature of the service, the immediate availability of the service or the price of the service. Most importantly, the choice of using special access vs. switched access is not within the control of the IXC. When a Verizon

[3] A PBX is a customer-owned switch designed for handling traffic between employees at the customer's premises and for acting as a "gateway" for traffic to the public switched telephone network. It can be thought of as a miniature "central office" operated by the customer. When a customer uses special access, a user typically dials "9" to place an outside (local) call, and dials (8) or some other digit to utilize the special access connection for placing a toll call.

[4] This is because of volume and cost considerations. That is, the customers who are most likely to benefit from the use of special access have numerous employees with significant volumes of long distance traffic. Also, the price of a T-1 facility – the expense the customer would incur – is on average less than the equivalent price of 24 voice-grade circuits.

customer in Springfield places a long distance call to a One Comm customer in Boston, the IXC handling that call cannot choose to use a special access line to complete the call to that One Comm customer, unless that customer is a large business that has installed a special access circuit.

Special access is only a remotely viable alternative to switched access for the IXC who handles a sizeable volume of the end user's long distance traffic. Assuming that One Comm's local exchange customer can and does choose a long distance provider unaffiliated with One Comm, it is farcical to suggest that any IXC other than the chosen one should purchase a special access connection to that customer. First, as described above, doing so requires the cooperation of the customer, but in Dr. Ankum's construct, only one IXC has any provider relationship with the customer. And even if it were possible to secure the customer's cooperation, it would make no sense for any other IXC to establish a special access connection to the end-user customer because the special access connection would be used only to terminate occasional, "one-off" long distance calls from the IXC's customers to that customer.

To put the issue in more real-world terms, purchasing a private plane may be a "substitute" means of traveling from one city to another, but it is vastly different from buying a ticket on a routine commercial airline flight. Few would view the two as analogous, or "substitutes" for each other, and the circumstances in which purchasing and owning a private plane would be an economically viable alternative to commercial travel are extremely limited and situation-specific. Nor is there any

reasonable likelihood that the availability of private planes for purchase will affect or discipline the price of commercial plane tickets.

Q. BUT DR. ANKUM TESTIFIED THAT MR. VASINGTON "ADMITTED THAT SPECIAL ACCESS SERVICES ARE A VIABLE ALTERNATIVE TO THE CLECS (SIC) SWITCHED ACCESS SERVICES" IN A NEW JERSEY PROCEEDING IN 2009 (*SEE* ANKUM REBUTTAL AT 29). IS HE CORRECT?

A. No. Prior to the two sentences that Dr. Ankum excerpted in his rebuttal testimony, Mr. Vasington was asked only whether it is *possible* for special access to be used as an alternative to switched access.[5] It is true that it is possible for a particular IXC and a particular customer to use special access as a direct connection that avoids switched access services, but there is a big difference between something being *possible* and being *viable* to the extent that it provides a competitive check. As noted above, it is possible to buy a private plane, but this possibility does not provide a competitive check on commercial airfares. We describe above the reasons that special access is not a competitive check on switched access rates.

Q. DOES THE 16-YEAR OLD ACADEMIC RESEARCH AND THE "BREAK-EVEN" ANALYSIS DEMONSTRATE THAT SPECIAL ACCESS ACTS TO DISCIPLINE SWITCHED ACCESS RATES?

A. No. As the Department, the FCC, and numerous other states have found in the past 10 years, there is no effective competitive discipline on switched access because of regulations and the structure of the service. The predictions in the 1995 academic study clearly have not stood the test of actual market experience. Dr. Ankum claims

[5] New Jersey Board of Public Utilities Docket No. 08090830, September 17, 2009 Transcript at 169-170.

"that switched access rates are constrained by the availability of special access because any attempt to set switched access rates significantly above costs will be met by a substitution toward special access services." Ankum Rebuttal at 28, lines 21-24. He states that this claim is conventional wisdom and is "confirmed" by the 1995 academic study. Unfortunately, the actual market experience in the past decade has confirmed beyond any doubt that Dr. Ankum's claim is inaccurate, as the Department has already found. Even on Dr. Ankum's own terms, his claim is false.[6]

Q. PLEASE EXPLAIN.

A. In this case, One Comm purports to demonstrate its Massachusetts intrastate switched access costs, but prior to the Department's decision in D.T.C. 07-9, One Comm was charging an intrastate switched access rate significantly above even the inflated cost claimed by One Comm. According to Dr. Ankum's theory, it would be impossible for One Comm to have done this. If it were viable for IXCs to use special access to avoid unreasonable switched access rates, then a lot of litigation and harm related to excessive switched access rates and traffic pumping could have been avoided. Dr. Ankum's theory is disproved by reality.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

[6] We believe that there are other problems with Dr. Ankum's "break-even" analysis, but since time is limited and the issue is irrelevant to the case, we will not describe these problems in detail in this testimony.