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185 Franklin Street, 13th Floor Boston, MA 02110

Tel (617) 743-2323 Fax (617) 737-0648 victor.delvecchio@verizon.com

March 9, 2007

VIA HAND DELIVERY

Ms. Debra A. Howland Executive Director and Secretary New Hampshire Public Utilities Commission 21 S. Fruit Street, Suite 10 Concord, NH 03301



Re: Docket DT 06-067 - Freedom Ring Communications Complaint Against Verizon New Hampshire re Access Charges

Dear Ms. Howland:

Enclosed for filing in the above-referenced matter are an original and six copies of redacted and unredacted versions of the Testimony of Peter Shepherd on behalf of Verizon New England Inc. d/b/a Verizon New Hampshire. Please note that the attachments to the Testimony, which are voluminous and largely only available in hard copy, are being provided to the Commission and the parties by overnight delivery.

Verizon NH considers certain information contained in its unredacted Testimony of Peter Shepherd to be proprietary and competitively sensitive. It is provided subject to confidential treatment in accordance with RSA 378:43 and a duly executed protective agreement. Specifically, the proprietary information is not general public knowledge or published elsewhere; Verizon NH has taken measures to prevent dissemination of the information in the ordinary course of business; and the information pertains to the provision of competitive services and/or sets forth confidential, financial or commercial information.

Thank you for your attention to this matter.

Very truly yours,

John F. Mesta, ice for Victor D. Del Vecchio

cc: Service List

STATE OF NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

)
FREEDOM RING COMMUNICATIONS, LLC)
d/b/a BAYRING COMMUNICATIONS) Docket DT 06-067
Complaint Against Verizon New Hampshire)
Re: Access Charges)
)

TESTIMONY OF PETER SHEPHERD

On Behalf of

VERIZON NEW ENGLAND INC. d/b/a VERIZON NEW HAMPSHIRE

March 9, 2007

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I. INTRODUCTION

1

2 Q. PLEASE STATE YOUR NAME AND CURRENT POSITION.

- 3 A. My name is Peter Shepherd. I am a Senior Staff Consultant with Volt
- 4 Information Sciences, Inc., currently assigned to a consulting engagement with
- 5 Verizon New Hampshire ("Verizon NH") on Public Policy and Regulatory matters.

6 Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL

7 BACKGROUND.

- 8 A. I received a Bachelor of Science in Business Administration and Master of
- 9 Business Administration from Babson College and have also completed courses in
- the Engineering programs of the University of New Mexico and Northeastern
- University. I have worked in the telecommunications industry for more than thirty
- years in a number of capacities.
- I started my career in 1970 with New England Telephone and Telegraph
- 14 Company ("NET") as a Central Office Technician, responsible for central office
- switching and interoffice trunking. Beginning in 1977, I was assigned to NET's
- Revenue Matters Department with increasing responsibilities for Independent
- Telephone Company Relations. In that organization, I had extensive involvement in
- coordinating joint network planning, the provision of jointly-provided services and
- network infrastructure modernization projects. In 1983, I became a Manager for
- Access Services with broad responsibilities for developing and managing access

services, including pricing, cost analysis, implementation, regulatory policy development and product management. From 1989 through 1993, I had various assignments in Marketing and Regulatory matters, leading to an assignment in 1993 with Verizon as a Director in the Public Policy and External Affairs Department. In that role I had responsibility for state regulatory planning and support for regulated retail and wholesale services provided by Verizon in the New England states. I have testified and participated in numerous state commission proceedings throughout the New England states and in New York on various subjects including access charges, rate design, payphone service, collocation, special contracts, new product introduction and regulatory reform. I retired from Verizon in November of 2003.

Q. WERE YOU INVOLVED IN THE DEVELOPMENT AND SUPPORT OF ACCESS CHARGES FOR THE STATE OF NEW HAMPSHIRE?

A. Yes. I was a member of a team of managers that was responsible for developing NET's intrastate access charges for New Hampshire at the time the intraLATA toll market was opened to competition by this Commission during the 1991-1993 time period. Specifically, I was responsible for the interim switched access services tariff that was developed for the initial opening of the New Hampshire intraLATA toll market, when the Commission granted AT&T, MCI, U.S. Sprint and Long Distance North interim authority to provide toll service in 1991. I worked on the development and formulation of NET's proposal for the toll competition trial in the Commission's Generic Competition Investigation, Docket DE 90-002, and, in particular, NET's access charge proposal. I testified in that

docket on NET's access charge structure, rates and proposed tariff and was NET's representative in negotiations between the parties that resulted in a stipulation that the Commission approved, establishing the framework for access charges in New Hampshire.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A.

The Commission should deny BayRing's complaint. The service Verizon NH provides to BayRing and other carriers when it carries their toll traffic is switched access, not switched interconnection tandem transit service, as BayRing alleges. The tandem transit service provisions of the tariff apply only to the delivery of **local** traffic, carried by Verizon NH, that originates from one carrier's network and terminates with another carrier's network. The testimony explains why the service at issue here is clearly switched access: namely, a service that involves a carrier's use of Verizon NH's network for the transmission and switching of a carrier's **toll** traffic to another carrier's or Verizon NH's end-user.

Moreover, BayRing contends that even if the Commission determines that the service is switched access service, the rates charged to carriers should not include carrier common line (or "CCL") charges because a call that originates with one carrier and terminates with another carrier does not use a Verizon NH common line. I explain that Verizon NH is properly applying its intrastate access tariff to toll traffic. Specifically, I explain why the application of the CCL is expressly provided for in the access tariff and arises from the access charge structure established by the Commission in the DE 90-002 Generic Competition Investigation. As I testified

therein, the carrier common line rate element was deliberately established as a contribution rate element applicable to all switched access usage and **not** as an element designed to recover costs related to a carrier's use of end-user access lines or loop-related costs. The language of the approved tariff, in fact, specifies that all switched access is subject to carrier common line charges for that very reason, i.e., to provide contribution that otherwise would have been provided from toll services. In short, the tariff is clear as to the application of the carrier common line element, and there was an express public policy underlying its adoption. Nothing has occurred to alter the Commission's prior access charge determinations, and the tariff is being applied consistent with those prior determinations.

A.

11 II. VERIZON NH PROVIDES SWITCHED ACCESS SERVICE FOR TOLL 12 CALLS MADE OR RECEIVED BY END-USERS WHETHER OR NOT 13 VERIZON NH PROVIDES THE END-USER LOOP

Q. WHAT IS VERIZON NH'S UNDERSTANDING OF THE ISSUE UNDER INVESTIGATION?

BayRing's April 28, 2006 petition to the Commission raises two issues. First, BayRing claims (at page 4) that certain calls made by its end-user customers, that traverse Verizon NH's network for delivery to a wireless carrier's end-user customers on a wireless carrier's network, are not switched access service subject to the provisions of Verizon NH Tariff NHPUC No. 85. This is so, BayRing contends, even though Verizon NH provides the switching and transport to provide access to the wireless carrier's network. Rather, BayRing argues that the switching and transmission services Verizon NH provides constitute tandem transit service subject

to the provisions of Verizon NH Tariff NHPUC No. 84. Second, the petition challenges the lawful application of switched access charges under Tariff NHPUC No. 85 and, in particular, application of the carrier common line element when Verizon NH provides a switched access service that does not involve a Verizon NH end-user and does not use a Verizon NH loop. For the reasons stated in Section III of my testimony, BayRing's contentions regarding the lawful application of the CCL are entirely misplaced.

A.

Q. PLEASE EXPLAIN SWITCHED INTERCONNECTION AND TANDEM TRANSIT SERVICES?

Switched interconnection service is provided by Verizon NH to a telecommunications carrier (or "TC," also referred to as a competitive LEC or "CLEC") under Tariff NHPUC No. 84 where an effective interconnection agreement is not in place. Switched interconnection service provides the TC with access to Verizon NH's network where the TC can exchange traffic with Verizon NH either at the line-side of a Verizon NH end office switch (known as "Meet Point C"), the trunk-side of a Verizon NH end office switch (known as "Meet Point A"), or the trunk-side of a Verizon NH tandem switch (known as "Meet Point B"). Part C, Section 1.3.3 of the tariff, also provides an option for Meet Point B switched interconnection arrangements, allowing calls originated by one TC to be routed to a Verizon NH tandem for delivery by Verizon NH to another TC also having a Meet Point B switched interconnection arrangement at the same Verizon NH tandem or to an independent telephone company ("ITC"). This Meet Point B switched

interconnection option is referred to as tandem transit service (or "TTS"), which is also described in Part A of the tariff as:

Tandem Transit Service—An offering provided by the Telephone Company to requesting competitive LECs that enables the TC whose customer originated an intraLATA call destined for a customer of another LEC (not a customer of the Telephone Company) to utilize a Telephone Company tandem switch as a means of establishing connectivity with the terminating competitive LEC. Tandem transit service is not applicable to calls that utilize an interexchange carrier for which interconnection with either the originating and/or terminating LEC(s) are provided pursuant to meet point billing, while service to the interexchange carrier is provided pursuant to switched exchange access service tariffs or other applicable contract arrangements. [Part A, Section 1.3.2.]

While Verizon NH is not obligated to provide TTS under the interconnection provisions of the Telecommunications Act of 1996 or FCC rules implementing the Act, Verizon NH provides TTS on a voluntary basis as a means for a TC to interconnect indirectly with the facilities of other carriers for the express purpose of exchanging local traffic pending establishment of direct interconnection arrangements between those providers. TCs may chooseVerizon NH's TTS offering to interconnect indirectly with other carriers but these carriers should not be permitted to change the terms, application or use of this voluntary service arrangement.

Significantly, these switched interconnection services are expressly limited to the transport and termination of *local* calls on one party's network that originate from the other party's network. For example NHPUC No. 84, Part C, Section 1.1.1, provides:

1 2 3 4 5		Switched interconnection services may only be used for the termination of <i>local</i> calls to NXXs served on the Telephone Company's network, including calls redirected from the TC to the Telephone Company under Number Portability that otherwise meet the criteria described in Part B, Section 11. [Section 1.1.1.C., emphasis added.]
6	Q.	CAN THE FACILITIES USED FOR SWITCHED INTERCONNECTION
7		SERVICES BE USED TO TRANSPORT OTHER TYPES OF TRAFFIC?
8	A.	Yes. To avoid the need for a TC to install separate facilities to handle other
9		types of traffic, such as toll calls, Verizon NH has provided in Tariff NHPUC No. 84
10		that the physical facilities used to provide switched interconnection service can also
11		be used to deliver toll and/or switched access traffic to Verizon NH. For example,
12		Part C, Section 1.1.1.C., of NHPUC No. 84 states:
13 14 15 16 17		Facilities used to provide switched interconnection services may be used to deliver toll, and/or interexchange traffic as provided in Section 1.7.3 following. Toll and Interexchange Switched Access Services that terminate on Switched Interconnection facilities will be rated under the appropriate State and/or Federal Tariffs ("Feature Group Service").
18		Comparable provisions are also contained in NHPUC No. 84, Part C, Section
19		1.1.1.D, Section 1.3.1, and Section 1.7.3.
20		When toll and switched access are combined on the same trunks used to
21		exchange local traffic, NHPUC No. 84, Part C, Section 1.1.1.C.1, specifies that toll
22		and switched access are rated under the appropriate state and/or federal tariffs for the
23		switched access feature group service being provided.
24	Q.	WHY ARE TOLL OR SWITCHED ACCESS CALLS, ORIGINATED BY
25		ONE TC AND ROUTED TO A VERIZON NH TANDEM FOR DELIVERY

1 TO ANOTHER TC OR LEC'S END-USER, NOT SWITCHED

INTERCONNECTION TANDEM TRANSIT SERVICE?

A.

As explained above, switched interconnection service may be used only for the transport and termination of *local* calls on one party's network that originated on the other party's network, as established by NHPUC No. 84, Part C, Section 1.1.1. Although toll and switched access can be combined on the same trunks used for the exchange of local traffic, NHPUC No. 84, Part C, Section 1.1.1.C.1, requires that toll and switched access traffic must be rated under the appropriate state and/or federal tariffs for the switched access feature group service being provided.

NHPUC No. 84, Part C, Section 1.1.2.B, likewise specifies that when the TC uses such combined trunks for local, toll and/or switched access traffic, the rates and charges described in NHPUC No. 84 for switched interconnection services **only** apply to the local traffic of the TC:

When the TC uses combined trunk groups as described in Section 1.7.3, the rates and charges described below will only apply to the local traffic of the TC. The local traffic will be determined based on the data provided as described in Section 1.7 following.¹

Thus, while the tariff permits combining local traffic and toll or switched access traffic on the same tandem trunk groups, it is also clear that switched interconnection TTS rates and charges apply only when **local** traffic is exchanged with another TC or an ITC. Conversely, as specified by NHPUC No. 84, Part C,

The TC is obligated under the tariff to provide usage percentage factors for the nature of the traffic carried over the combined trunks or usage details so that the proper charges can be applied for each type of traffic. Indeed, where the TC fails to report or provide the requisite information to determine billing, the traffic is rated as access. BayRing (and other carriers) have been providing the requisite information, thus evidencing their knowledge of the tariff requirements to properly report the nature of the types of traffic.

Sections 1.1.1.C and 1.1.2.B, state and/or federal switched access tariffs apply for a TC's use of Verizon NH's network in the provision of its toll service (for the exchange of toll traffic with another TC or ITC) and the provision of its switched access service (for the exchange of traffic associated with the toll service of another TC, ITC or an interexchange carrier).

Also, Part A, Section 1.3.2, of the tariff explains that TTS is not applicable for calls involving an interexchange carrier where interconnection with either the originating and/or terminating LEC(s) are provided pursuant to Meet Point Billing. In such instances, service to the interexchange carrier is provided pursuant to switched exchange access service tariffs:

Tandem transit service is not applicable to calls that utilize an interexchange carrier for which interconnection with either the originating and/or terminating LEC(s) are provided pursuant to meet point billing, while service to the interexchange carrier is provided pursuant to switched exchange access service tariffs or other applicable contract arrangements. [Part A, Section 1.3.2.]

In short, BayRing's claim that such traffic is not switched access under NHPUC No. 85, but rather TTS purchased under NHPUC No. 84, is unfounded and not consistent with the express language of the tariff approved by this Commission.

Q. ARE THERE OTHER FLAWS WITH BAYRING'S POSITION?

A. Yes. BayRing's argument is based on the false premise that a provider of originating or terminating switched access service must have its own end-user on the originating or terminating end of the call. As explained above, this premise is wrong and is inconsistent with the terms and conditions of Tariff Nos. 84 and 85.

Moreover, while switched access Tariff No. 85 provides for the TC's use of Verizon NH facilities to originate or terminate the TC's toll services from or to a Verizon NH end-user, it does not require such use and is not limited to instances involving a Verizon NH end-user. That is precisely why such limitations are not documented in the tariff. In fact and practice, switched access is also applicable where Verizon NH is collaborating with another TC, ITC or other carrier to provide the TC, whose end-user originates a non-local call, with transmission and switching for the purposes of terminating non-local toll calls. This is switched access service pursuant to Tariff NHPUC No. 85, which applies according to Section 2.1 when carriers use Verizon NH's network to provide their toll services. In fact, applying the logic of BayRing's petition, originating or terminating switched access charges would never apply to any Meet Point Billing arrangement where an ITC or CLEC collaborate with Verizon NH to jointly furnish switched access transport for an interexchange carrier that provides its toll service to a non-Verizon NH end-user. This is unsupported and inconsistent as Meet Point Billing arrangements for the joint provision of switched access service by multiple exchange carriers is an industry standard practice that has been in place for over 20 years and is in place in every other jurisdiction in which Verizon operates.

- Q. DOES VERIZON NH'S SWITCHED INTERCONNECTION TARIFF NO. 84
- 20 MAKE CLEAR DISTINCTIONS BETWEEN LOCAL TRAFFIC AND TOLL
- 21 TRAFFIC?

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Yes. The distinction is necessary because NHPUC No. 84 only provides for the use of Verizon NH's network by TCs for switching and transmission of local traffic and NHPUC No. 85 provides for the use of Verizon NH's network by carriers for switching and transmission of toll or switched access traffic. Because the tariff clearly states that switched interconnection service, and its associated rates including TTS, apply only to the exchange of local traffic, while toll and switched exchange access traffic is rated under the appropriate access services tariff, a clear distinction is made in the tariff between "local" and "toll" traffic.

A.

Part A, Section 1.3.2 of NHPUC No. 84, for example, defines local traffic as a call that originates and terminates within a local calling area as defined in NHPUC No. 83, Part A, Section 6.² The same tariff section also describes "toll service" as that which is defined in the Telecommunications Act and, for purposes of the tariff, treats all calls for which toll dialing parity applies as "toll service." The Telecommunication Act, in turn, defines toll service as "telephone service between stations in different exchange areas for which there is made a separate charge not included in contracts with subscribers for exchange service." 47 U.S.C. 153 (emphasis added).

These distinctions are important for the proper application of the tariff and draw bright lines between switched interconnection TTS, which applies only to the exchange of **local** traffic, and switched access, which applies to the exchange of (1)

² The tariff also provides that IntraLATA calls originated on a presubscription (i.e., 1+ dialed) or casual dialed (i.e., 10XXX/101XXXX+) basis; calls to ported numbers redirected from Verizon NH to the TC or from the TC to Verizon NH; and calls delivered to Internet service providers are **not** considered local traffic.

toll traffic and/or switched exchange access traffic dialed on a 1+ presubscribed or 10XXX/101XXXX casually-dialed basis and (2) calls that utilize an interexchange carrier, where the originating or terminating TC and Verizon NH are providing access pursuant to a Meet Point Billing arrangement.³

Therefore, contrary to BayRing's claim, non-local calls that originate from one TC and terminate to another TC, using a Verizon NH tandem arrangement to deliver the call, are provided as switched access and not as switched interconnection TTS under the terms of Tariff No. 84. Verizon NH provides the TC with transmission and switching for the purposes of originating or terminating toll service, which under the tariff is switched access service pursuant to NHPUC No. 85 — not No. 84. Likewise, non-local calls originating from or terminating to a TC, using a Verizon NH tandem arrangement to deliver the call to or from an interexchange carrier, are also provided as switched access and not as switched interconnection TTS under the terms of NHPUC No. 84.

Q. IN ADDITION TO THE EXPRESS LANGUAGE OF THE TARIFF, ARE
THERE COMPELLING LEGAL AND POLICY REASONS
CONTRADICTING BAYRING'S CONTENTION THAT THE SERVICE
PROVIDED BY VERIZON NH IS NOT SWITCHED ACCESS BUT RATHER
TANDEM TRANSIT SERVICE?

³ NHPUC No. 84, Part A, Section 1.3.2, specifically provides that switched exchange access service is the "offering of transmission or switching services to TCs for the purposes of the origination or termination of telephone toll service."

Yes. There are several federal and New Hampshire-specific rulings that contradict BayRing's contentions. First, under the Telecommunications Act. telecommunications carriers have a duty "to interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers." 251(a)(1). All local exchange carriers have the "duty to establish reciprocal compensation arrangements for the transport and termination telecommunications." Section 251(b)(5). Incumbent local exchange carriers also have the duty to provide "interconnection with the local exchange carrier's network - (A) for the transmission and routing of telephone exchange service and exchange access." In implementing these provisions of the Section 251(c)(2). Telecommunications Act, the FCC has determined that interconnection services for the exchange of **local** traffic are different than access services for **toll** traffic:

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We conclude, however, as a legal matter, that transport and termination of **local** traffic are different services than access for long distance telecommunications.... The Act preserves the legal distinctions between charges for transport and termination of **local** traffic and interstate and intrastate charges for **long-distance** traffic. [Local Competition Order at 1033, emphasis added.]

Second, the FCC explained that access charges were developed to address situations in which multiple carriers collaborate to complete a long-distance call, typically involving an originating LEC or LECs, an interexchange carrier and a terminating LEC or LECs. Rather than switched interconnection service, which is only applicable to the exchange of local traffic, the FCC determined that the exchange of traffic for non-local calls would be subject to interstate and intrastate access charges:

[S]tate commissions have the authority to determine what geographic areas should be considered "local areas" for the purpose of applying reciprocal compensation obligations under section 251(b)(5), consistent with the state commissions' historical practice of defining local service areas for wireline LEC's. Traffic originating or terminating outside of the applicable local area would be subject to interstate and intrastate access charges. [Local Competition Order at 1035.]

A.

Q. HAS THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION ALSO MADE SIMILAR DETERMINATIONS?

Yes. First, Verizon NH filed revisions to its access services tariff, NHPUC No. – 78, that went into effect March 21, 1991 in compliance with the Commission's Order No. 20,007 in Docket DE 90-002. In that Order, the Commission approved NET's intrastate switched access service tariff applicable to the four interexchange carriers (AT&T, LDN, MCI and U.S. Sprint) that had been permitted on an interim basis to provide competitive toll services. Sections 1.1 and 1.2 of the tariff specified that switched access service is provided to interexchange carriers, including resellers or other carriers certified by the Commission, that use Verizon NH's network to provide toll service. In essence, Order No. 20,007 authorized those four carriers to provide toll services on an interim basis, pending further investigation into opening the New Hampshire market to intrastate toll competition. By approving Verizon NH's access service tariff, the Commission specifically authorized and required Verizon NH to provide switched access to carriers that use Verizon NH's network for the purpose of providing toll services.

In its September 27, 1993 Order No. 20,980 in Docket DE 90-002 ("Order Authorizing Access Rates for All New Hampshire Local Exchange Carriers"), the Commission approved NET's Tariff No. 78, filed on August 16, 1993 and effective October 1, 1993. These compliance provisions replaced the interim access tariff applicable to toll providers, implementing the Commission's previous Orders⁴, which set the foundation for intrastate access charges and toll competition in New Hampshire. Sections 1.1 and 1.2 of the approved access tariff continued to specify that switched access service is provided to interexchange carriers, including resellers or other entities certified by the Commission, where the carrier uses Verizon NH's network to provide its services – reflecting the Commission's policy on access charges to be applied for the provision of competitive toll services.

Subsequent versions of Verizon NH's access service tariff (NHPUC No. 79 and NHPUC No. 85) also contained this language in their respective "General Regulations" sections, including the governing tariff currently in effect. (Copies of the relevant tariffs were provided during discovery⁵ and are provided as Exhibit I attached to this testimony.) Moreover, in its Order No. 24,080, the Commission determined, at least for non-ISP bound traffic exchanged between carriers, that such traffic shall continue to be designated as local or toll based on the physical location of the end-users. While the Commission determined that CLEC local calling areas do not need to mirror the ILEC local calling areas, the payment of switched access

⁴ Report and Order No. 20,864 issued June 3, 1993 and Report and Order No. 20,916 issued August 2, 1993, Docket DE 90-002, Generic Investigation into IntraLATA Toll Competition Access Rates.

⁵ Verizon NH Reply to One Communications' First Set of Data Requests, Item 1-1.

service charges (for toll traffic) and interconnection reciprocal compensation charges (for local traffic) associated with the exchange of non-ISP traffic will be assessed according to the definition of the ILEC local calling areas.⁶ (Exhibit II contains copies of the Orders or relevant portions referenced throughout this testimony.)

In short, the Commission has unambiguously recognized in various proceedings that switched access service applies to toll calls where a carrier uses Verizon NH's network in the provision of a toll service. The types of traffic subject to switched access are clearly specified in Verizon NH's intrastate tariffs and have been consistently applied by Verizon NH accordingly.

Q. WHAT CONCLUSIONS SHOULD THE COMMISSION REACH?

A. Under the terms of both Tariff No. 84 and No. 85, it is clear that the service provided by Verizon NH is switched access and not switched interconnection TTS. It is also clear that where Verizon NH provides transmission and switching services for a carrier's use in completing toll calls, Verizon NH is providing switched access for the exchange of toll traffic. It is also the case that switched interconnection TTS only applies for the exchange of local traffic. In light of prior FCC determinations and determinations of this Commission, the Commission must enforce the tariff as

⁶ DT 00-223 Investigation as to Whether Certain Calls are Local at 56-58 ("FURTHER ORDERED, that reciprocal compensation or access charges shall be due for non-ISP bound traffic in accordance with the ILEC local calling areas" at 60-61).

Not surprisingly, no other intervenor in this docket has taken a similar position and claimed that the applicable service is TTS. See AT&T Supplemental Response to VZ-ATT 1-2 and One Communications Supplemental Response to Verizon 1-2.

written and find that switched access is the relevant service which Verizon NH is providing.

3 III. VERIZON NH'S TARIFF REQUIRES PAYMENT OF ACCESS RATE
4 ELEMENTS, INCLUDING THE CCL CHARGE, ON ALL INTRASTATE
5 SWITCHED ACCESS PROVIDED TO CARRIERS.

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7 Q. DOES VERIZON NH'S ACCESS SERVICE TARIFF NO. 85 REQUIRE

8 PAYMENT OF CARRIER COMMON LINE CHARGES ON ALL

SWITCHED ACCESS SERVICE?

A. Yes. The tariff is explicit that a carrier common line charge applies and is billed for each switched access service provided under the tariff. This requirement is stated at the beginning of Section 5.1, which prescribes that: "Carrier common line access service is billed to each switched access service provided under this tariff..." (emphasis added).

Section 5.4.1 also specifies that the carrier common line charge applies to all switched access: "Except as set forth herein, all switched access service provided to the customer will be subject to carrier common line access charges." Section 5.4.1.A (emphasis added). This is further reinforced by additional terms in Section 5.4.1⁸ and Section 5.3.1⁹, describing that carrier common line rates and charges

⁸ "When access to the local exchange is required to provide a customer service (e.g., MTS type, Telex, Data, etc.) that uses resold IC's private line service, switched access service rates and regulations as set forth in Section 6 will apply except when such access to the local exchange is required for the provision of an enhanced service. Carrier common line access rates and charges apply." Section 5.4.1.B, emphasis added.

[&]quot;Where the customer is reselling MTS and/or MTS type service(s) on which the carrier common line access and switched access charges have been assessed, the customer will obtain FGA, FGB or FGD switched access service under this tariff (refer to Section 6) for originating and/or terminating access in the

interexchange carrier private line services.

Section 5.4.1 also goes on to explain that carrier common line rates and charges will be billed to all intrastate switched access service provided under this tariff for switched access provided through (1) a Meet Point Billing arrangement to (2) WATS or WATS-type service to (3) non-800 originating and terminating

apply to switched access provided to resellers of "MTS" (i.e., toll) type and

Language was placed in all of these sections to underscore the principle that

carrier common line charges apply for all types of switched access calls.

minutes as well as 800 originating and terminating minutes. 12

10 Q. HOW DOES THE ACCESS TARIFF PRESCRIBE THAT CARRIER 11 COMMON LINE CHARGES APPLY FOR ALL MEET POINT BILLING

12 SWITCHED ACCESS MINUTES?

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local exchange. Such access group arrangements whether single trunks or trunk groups will have carrier common line access charges applied." Section 5.3.1, emphasis added.

[&]quot;The switched access service provided by the Telephone Company includes the switched access service provided for both interstate and intrastate communications. The carrier common line access rates and charges will be billed to each switched access service provided under this tariff in accordance with Section 4.1 and Section 5.4.2." Section 5.4.1.C, emphasis added.

[&]quot;Where switched access services connect with private line type services at Telephone Company designated WSOs for provision of WATS or WATS type services, switched access service minutes which are carried on that end of the service (i.e., originating minutes for outward WATS and WATS type services) will be assessed carrier common line access per minute charges." Section 5.4.1.D, emphasis added. (WATS is an acronym for Wide Area Telecommunications Service.)

Section 5.1.4.C also makes reference to Section 5.4.2 for the application of carrier common line charges to all switched access minutes. This section provides that the CCL charge applies to all originating and all terminating non-800 minutes, and all 800 data base access minutes, whether ultimately terminating to a common line 800 service or a WAL 800 service. (WAL is an acronym for WATS or 800 Service dedicated access line.)

1	A.	NHPUC No. 85, Section 5.4.1.C's reference to Section 4.1 pertains to billing
2		matters, generally, and to the application of the carrier common line charge,
3		specifically, for all intrastate switched access provided through a Meet Point Billing
4		arrangement with another local exchange carrier:
5 6 7 8		Meet Point Billing - Where more than one exchange telephone company is involved in the provision of access service, the Telephone Company will bill such access services in accordance with the regulations set forth in Section 3.1. [Section 4.1.12.A.]
9		Section 3.1 further explains the application of Meet Point Billing as it relates to the
10		joint provision of transport and that all other switched access charges apply
11		according to the local exchange carrier's access tariff:
12 13 14 15 16 17 18		Each exchange telephone company will provide the portion of the local transport element in its operating territory to an IP [interconnection point] with another exchange telephone company and will bill the charges in accordance with its access service tariff. The charges for the local transport element will be determined as described in Section 3.1.2K and 3.1.2L. All other appropriate charges in each exchange telephone company tariff are applicable. [Section 3.1.2.D, emphasis added.]
19		These provisions were included in the tariff to highlight the requirement that
20		carrier common line charges apply to all switched access service, including Meet
21		Point Billing arrangements, and that, while local transport receives a special
22		calculation, other switched access charges including CCL are required by the tariff.
23	Q.	WHY DOES THE TARIFF REQUIRE THE APPLICATION OF THE
24		CARRIER COMMON LINE CHARGES TO ALL SWITCHED ACCESS
25		MINUTES?

When initially proposed in the Commission's Generic Competition Docket, DE 90-002, the intrastate tariff (and its successors) were developed to mirror in large part the structure of the interstate switched access tariff. The intent at the time was to have as much commonality with the interstate tariff as possible for ease of administration and customer understanding, while allowing the flexibility to tailor provisions of the tariff to requirements specific to New Hampshire, including important public policy objectives. The major difference in the New Hampshire intrastate tariff was the establishment of the carrier common line rate element as a vehicle to provide contribution equivalent to the contribution obtained from toll rates and charges, rather than as a charge for the carrier's use of Verizon NH's common lines and associated costs – as in the interstate tariff. Significantly, the intrastate CCL element was adopted in the Generic Competition Docket to promote the important public policy objective of retaining contribution for the support of services like basic residence exchange, which had traditionally been supported through toll rates.

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A.

While the tariff also permits a toll provider to use a Verizon NH common line to provide competing toll service to a Verizon NH end-user, this does not diminish the fact that the CCL rate element was never designed for or limited to the recovery of costs related to the use of end-user loops. Rather, as I will explain further, it was, and still is, a rate element designated exclusively to provide a level of contribution targeted to an overall rate level and was set on a residual basis to obtain the targeted contribution levels upholding this important public policy objective. That is

- why the tariff language explicitly and repeatedly spells out the requirement that
- 2 carrier common line charges apply to all switched access usage.

3 Q. PLEASE EXPLAIN THE DEVELOPMENT OF THE CARRIER COMMON

4 LINE RATE ELEMENT.

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A. When access charges were adopted in DE 90-002, NET explained that as toll competition was introduced in New Hampshire, it was important that the revenue contribution supporting exchange services that had been traditionally provided by toll services be maintained regardless of whether NET or a competitor provided the As NET's Mr. Michael McCluskey testified in that proceeding (discussed further below), a necessary ingredient to the introduction of toll competition in New Hampshire was setting an economically efficient relationship between toll and access.¹³, The purpose of that rate structure was to provide equivalent levels of contribution through a new switched access charge contribution element, reflecting contribution that would otherwise be provided by NET toll services in the absence of competition. In other words, to support rates for other services under rate of return regulation, NET recommended the introduction of originating and terminating carrier common line as contribution rate elements to NET's switched access tariff. The first set of switched access charges approved by the Commission only contained elements for local switching and local transport, and the contribution was built into each rate element for these specific functions. This

Exhibit III attached to my testimony contains excerpts of all the DE 90-002 testimony referenced within this testimony.

was done by using the average rate per minute for toll, reflecting its contribution, as the basis for setting the rates for the switched access elements. In short, the same level of support to exchange rates was provided whether NET provided the toll service on a retail basis or whether another carrier provided the toll service by using NET's access services.

When NET made its proposal for permanent access charges in DE 90-002, it recommended a change in the access structure. Instead of having all local switching and local transport rates discretely include contribution, NET proposed setting these rates at incremental cost levels, and establishing originating and terminating carrier common line rates **solely** as a contribution element. As NET's witness explained:

In addition to the local switching and local transport element, the Company is introducing originating and terminating carrier common line elements which reflect contribution. The sum of the cost-based local transport and local switching rate elements which would apply on an end-to-end basis would fall far below the retail rates, since the sum would contain no contribution beyond incremental cost. The sole purpose of the carrier common line rate element is to bring the end-to-end access rate from the incremental costs of transport and switching up to a level which results in the proper relationship between toll and access. [McCluskey Testimony at 12-13, emphasis added.]

The testimony went on to note that obtaining contribution from the carrier common line element equivalent to the contribution in toll rates, under NET's proposal, was necessary to promote rate continuity since only the interim access rates would be affected and no other rates, including exchange rates, would require any changes.

In addition, further support of NET's position was provided in testimony in the Generic Competition Docket by Dr. William Taylor, who was asked by NET to

1 I also explained that the carrier common line element was designed solely as 2 a contribution element and that it was more appropriate to isolate contribution to 3 these elements, rather than from the traffic sensitive network elements that would be 4 priced at an incremental cost-based level. I explained this was: 5 "... in order to establish the proper price signals to the market and 6 facilitate the appropriate retail/wholesale linkage for any future transition 7 of these retail and wholesale prices towards the overall level of their 8 costs." [Shepherd Testimony, at 5.] 9 Thus, it was abundantly clear when the access charges were established by 10 NET and adopted by this Commission that the CCL charge was not intended to 11 recover costs for use of specific components of NET's network (as were the local 12 switching and transport charges). Rather, the CCL charge was set and was to be 13 applied to ensure that the use of NET's network for toll services by any carrier 14 continued to provide the same level of contribution to exchange services as when 15 NET was the only provider of toll services. As noted above, this policy is furthered 16 by having the CCL charge apply to all access services as clearly specified in the new Section 3.5: 17 18 Except as set forth herein, all Switched Access Service provided to the 19 customer will be subject to Carrier Common Line Access charges. 20 [Emphasis added.] 21 The only exception applied to the provision of enhanced services, in which case 22 switched access charges, including the CCL, were not applicable. 23 Q. IS THERE OTHER EVIDENCE THAT THE CARRIER COMMON LINE 24 ELEMENT WAS INTENDED SOLELY AS AN ELEMENT TO OBTAIN

CONTRIBUTION FROM ALL SWITCHED ACCESS USAGE RATHER 1 THAN AS AN ELEMENT SPECIFIC TO THE USE OF END-USER 2 **COMMON LINES?** 3 A. Yes. In its August 21, 1992 rebuttal testimony in the Generic Competition 4 5 docket, NET re-emphasized that: [T]he Company's proposal to establish the traffic sensitive switched 6 access rates at the level of incremental costs and recover contribution 7 through a separate originating and terminating carrier common line 8 rate element is more appropriate and will facilitate future transitions of 9 toll and access rates in the direction of overall incremental costs in 10 response to competitive market forces. [McCluskey Testimony, at 32, 11 emphasis added.] 12 Also, Mr. McCluskey and I testified at hearings that the carrier common line 13 14 charge was solely a contribution element, set on a residual basis to establish the overall access charge rate level for originating and terminating switched access, 15 and not a charge based on the cost of or use of access lines. (Examples are included 16 as Exhibit IV to this testimony. ¹⁴) Unlike the interstate tariff, the proposed intrastate 17 18 switched access tariff's CCL charge was solely an element to provide contribution applicable to all switched access minutes of use: 19 The carrier common line element is an element that applies on both an 20 originating and a terminating basis to the extent that the carrier uses the 21 local exchange carrier switched network." [12/3/1992 Day XIV, Shepherd 22 Cross-Examination at 86.] 23 Specific language was included in the proposed switched access tariff which 24 25 was also carried forward to the tariff ultimately approved by this Commission and its

DE 90-002 Transcript Day X at 199-200, 224-226, 230-232; Day XII at 196-198, 202-214; Day XIII at 12, 24-26, 169-171; Day XIV at 48-52, 74-82, 84-89, 98-106.

- successor tariffs, specifying that carrier common line applies to all switched access
- for a carrier's use of NET's (now Verizon NH's) local exchange switched network,
- 3 supporting the rate design objectives.

4 Q. WAS NET'S SWITCHED ACCESS TARIFF THAT THE COMMISSION

5 APPROVED THE OUTCOME OF A NEGOTIATED SETTLEMENT IN DE

6 90-002?

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A. Yes. The signatories¹⁵ negotiated a host of issues in their Stipulation and Agreement, resolving a number of matters in the proceeding. Among them were the structure and rates for the local exchange carriers' switched access tariffs. The Stipulation regarding NET's switched access rate design, structure and rate levels was a compromise from NET's initial position in the case. Rather than linking the contribution in the overall originating and terminating switched access rate to NET's retail toll and 800 services, Section IIIA of the Stipulation established overall switched access transitional rate targets to reduce, in four phases, the overall rate to an equivalent interstate average rate per minute. However, the stipulated rate design and structure did **not** depart from the fundamental objective of establishing local transport and local switching rates at incremental cost and isolating the carrier common line element to provide contribution.

Commission Staff, Office of Consumer Advocate, Business and Industry Association, AT&T Communications of New England Inc., Long Distance North of New Hampshire Inc., MCI Telecommunications Corp., Sprint Communications Company of New Hampshire Inc., Bretton Woods Telephone Company, Dunbarton Telephone Company Inc., Granite State Telephone Inc., Merrimack County Telephone Company, Wilton Telephone Company Inc., Chichester Telephone Company, Kearsarge Telephone Company, Meriden Telephone Company Inc., Union Telephone Company, Contel of NEW HAMPSHIRE Inc. dba GTE New Hampshire, Contel of ME Inc. dba GTE Maine, and New England Telephone and Telegraph Company were signatories.

In developing Attachment 2 of the Stipulation, the signatories' rate design set overall end-to-end as well as terminating access rate targets for non-800 switched access.¹⁶ The contribution to be recovered in the originating and terminating carrier common line rates was then established residually by removing the incremental cost based rates for local switching and local transport.

That rate design – and the fact that the carrier common line rate elements were residually set to provide contribution – were also established in testimony provided through a witness panel explaining key aspects of the Stipulation and Agreement.¹⁷ In explaining the Attachment 2 described above, Mr. Salvatore (AT&T's expert witness) was questioned by Mr. Gary Cohen, one of the Commission's retained outside counsel, regarding the rate design and rate development. The testimony again established that the carrier common line elements were designed as contribution elements – rather than a mechanism to recover the cost of using a local loop. ¹⁸

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The same principle was followed in establishing the CCL rate for originating and terminating 800 switched access.

On March 22, 1993, a panel of witnesses testified about the Stipulation and Agreement in a hearing before the Commission in DE 90-002. The panel consisted of AT&T's witness Mr. William Salvatore representing interexchange carriers, Ms. Kate Bailey for the Commission Staff, Mr. Michael Campbell representing New Hampshire Independent Telephone Companies and myself on behalf of NET.

¹⁸ Ouestioned by Mr. Cohen:

Q During the hearings if I recall the testimony from Mr. Shepherd and Mr. McCluskey in terms of a carrier common line element, they talked in terms of a contribution element as opposed to anything geared to the local loop.

A (Salvatore) As I said, traditionally the carrier line charge was a charge for the local loop. Mr. Shepherd can help me with this, the way the elements themselves are structured is that the local transport and local switching elements are set at incremental costs. The remainder of the access charge is put into the carrier common line charge. So, one could think of it as a contribution element.

Q So what you are saying, you're not suggesting that the loop is priced at incremental cost, are you?

Based on the evidence, the Commission ultimately approved a Stipulation and its associated rate design and rate structure as explained above.¹⁹ NET submitted its compliance tariff on August 16, 1993, which was approved by the Commission²⁰ and became effective October 1, 1993.

That tariff and its successor tariffs have **all** been based on the access charge framework established in DE 90-002, utilizing the carrier common line as a contribution element that was intended to replace contribution NET would otherwise have recovered from toll. The approved tariff provided that carriers using NET's switched network to provide competitive toll services would be subject to switched access charges including the CCL. The tariff language today is a product of the access charge structure determined in DE 90-002 and is clear in its application. Nothing has occurred over the course of time to alter these determinations, and they are just as appropriate today as they were in 1993.

Q. HAS VERIZON BEEN A PARTY TO A SIMILAR ADJUDICATION IN ANY OTHER STATE JURISDICTION?

16 A. Yes. Verizon New York was involved in a similar complaint regarding 17 application of its access Tariff PSC NY No. 11 in Case No. 04-C-1548. In that

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A (Salvatore) No, I'm saying that the local transport and the switch are priced at incremental cost. Carrier common line is the difference between the incremental cost for local switching and the incremental costs of local transport to get to the 16 cent total access charge.

O So it's the remainder?

A (Salvatore) It is the remainder. I used the term "residual." [Day XV Transcript at 19-20, emphasis added.]

¹⁹ Report and Order Nos. 20,864 issued June 3, 1993 and 20,916 issued August 2, 1993.

²⁰ Order No. 20,980 issued September 27, 1993.

proceeding WilTel Communications filed a complaint with the New York Public Service Commission regarding the tariff's application of carrier common line and local switching charges on calls terminating to wireless carriers. WilTel made essentially the same claim as BayRing does here - it was inappropriate for Verizon New York to charge the CCL when Verizon New York does not provide the local switching or local loop service.

A.

The New York Public Service Commission rejected WilTel's complaint. The commission found that the application of the CCL was consistent with its prior rate determination and that the tariff permitted Verizon New York to assess the disputed charges. The same factors are present here. The CCL was set by this Commission to achieve a specific policy objective and was not tied to the use of specific pieces of Verizon NH's network. And, Verizon NH's tariff is clear that the CCL applies to all switched access services.

Q. WHAT WOULD THE FINANCIAL IMPACT BE TO VERIZON NH AND ITS RATEPAYERS IF THE COMMISSION WERE TO FIND OTHERWISE?

Verizon NH's February 8, 2007 compliance response to the Commission's Procedural Order No. 24,705 provided general order of magnitude estimates of the potential financial impact to Verizon NH and its ratepayers if the Commission were ultimately to decide that Verizon NH had not properly applied the tariff. Verizon NH estimated that CCL charges of approximately [begin proprietary] \$*** million [end proprietary] were billed to carriers for intrastate switched access where

Verizon NH was not the provider of the end-users' access lines for the two-year period January 2005 through December 2006. Verizon NH also estimated that the annual impact to Verizon NH and it ratepayers if the disputed charges were no longer collected prospectively would be approximately [begin proprietary] \$\frac{\pi^***}{million} [end proprietary] per annum. This would represent a serious, further downward earnings-impact to Verizon NH's latest Commission reported earnings deficit for operations in the State of New Hampshire. Eliminating this important source of contribution could necessitate offsetting increases to other rates.

9 IV. CONCLUSION

10 Q. HOW SHOULD THE COMMISSION PROCEED WITH THIS CASE?

A. The Commission should deny BayRing's complaint. As demonstrated in this testimony, the service at issue is not switched interconnection tandem transit service, which only applies for the delivery of **local** traffic. Rather, the service is switched access service, which applies to the use of Verizon NH's switched network for the transmission and switching of another carrier's **toll** traffic. The application of the access tariff approved by the Commission is consistent with the access charge framework and structure established in the Generic Competition investigation, Docket DE 90-002. That proceeding established Verizon NH's carrier common line element solely as a contribution element applicable to all switched access usage. The language of the approved tariff specifies that **all** switched access is subject to carrier common line charges for that very reason, to provide contribution and support

Testimony of Peter Shepherd on Behalf of Verizon New Hampshire Docket DT 06-067 Page 31 of 31

- to maintain other ratepayer rates. Nothing has occurred to change the Commission's
- 2 prior access charge determinations.

EXHIBIT I

REFERENCED TARIFF PROVISIONS CONSISTING OF:

NHPUC No. 78 (Effective 3/21/1991)

NHPUC No. 78 (Effective 10/2/1993)

NHPUC No. 79

NHPUC No. 85

NHPUC No. 84 Part A, Section 1.3.2

Part C, Section 1.1.1.C

Part C, Section 1.1.2.B

Part C, Section 1.3.1

Part C, Section 1.7.3

EXHIBIT II

REFERENCED ORDERS CONSISTING OF:

NH PUC Docket DE 90-002

Order No. 20,007

Report and Order No. 20,864

Report and Order No. 20,916

Report and Order No. 20,980

NH PUC Docket DT 00-223

Order No. 24,080 (pp. 56-58, 60-61)

CC Docket No. 96-98

First Report and Order FCC 96-325 (¶1033-1035)

NY PSC Case No. 04-C-1548

Order Denying WilTel Communications Complaint

EXHIBIT III

NH PUC DOCKET DE 90-002

REFERENCED TESTIMONY EXCERPTS CONSISTING OF:

Michael McCluskey	May 1, 1992	Direct (pp. 12-13)
Dr. William Taylor	May 1, 1992	Direct (p. 4)
Peter Shepherd	May 1, 1992	Direct (pp. 4-7)
Michael McCluskey	August 21, 1992	Rebuttal (pp. 31-32)

EXHIBIT IV

NH PUC DOCKET DE 90-002

REFERENCED TRANSCRIPT EXCERPTS CONSISTING OF:

Day X

(pp. 199-200, 224-226, 230-232)

Day XII

(pp. 196-198, 202-214)

Day XIII

(pp. 12, 24-26, 169-171)

Day XIV

(pp 48-52, 74-82, 84-89, 98-106)

March 22, 1993

(pp. 19-20)