VIA ECFS

June 12, 2015

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TW-A325
Washington, DC 20554

Re: *Technology Transitions*, GN Docket No. 13-5; *AT&T Petition to Launch a Proceeding Concerning the TDM-to-IP Transition*, GN Docket No. 12-353; *Petition of USTelecom for Forbearance Pursuant to 47 U.S.C. § 160(c) from Enforcement of Obsolete Incumbent LEC Legacy Regulations that Inhibit Deployment of Next-Generation Networks*, WC Docket No. 14-192; *Petition of Granite Telecommunications, LLC for Declaratory Ruling,* WC Docket No. 15-114

Dear Ms. Dortch:

Granite Telecommunications, LLC ("Granite") hereby files the in the above-referenced dockets the enclosed letter from Charles River Associates ("CRA"). It describes certain benefits generated by competitive local exchange carriers ("CLECs") in today's marketplace and estimates the consumer harm that would be caused if equivalent access for telecommunications products is not provided to CLECs in the next generation of those products. CRA estimates that harm would be $4.443 billion to $10.168 billion per year.

In support of CRA's letter, we also enclose for filing Declarations of Kevin Nichols and Jorge DeJesus in Support of Granite Telecommunications, LLC.

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(866) 847-1500•www.granitenet.com

Please contact me if you have questions regarding this filing.

Very truly yours,

Michael B. Galvin
General Counsel

Enclosures

cc: *By hand delivery:*
Samuel J. Kline
Paula Foley
By email:
Thomas Jones
Eric Branfman
Matt DelNero
Carol Mattey
Daniel Kahn
Pamela Arluk
Bakari Middleton
Michele Berlove
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David Zesiger
John Visclosky
Virginia Metallo
Randy Clark
Jodi Donavan-May
Jean Ann Collins
Heather Hendrickson

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Re: ***Technology Transitions*****, GN Docket No. 13-5;** ***AT&T Petition to Launch a Proceeding Concerning the TDM-to-IP Transition*****, GN Docket No. 12-353** ***Petition of USTelecom for Forbearance Pursuant to 47 U.S.C. § 160(c) from Enforcement of Obsolete Incumbent LEC Legacy Regulations that Inhibit Deployment of Next-Generation Networks*****, WC Docket No. 14-192;** ***Petition of Granite Telecommunications, LLC For Declaratory Ruling, WC Docket No. 15-114***

Dear Ms. Dortch:

In the recent Technology Transitions NPRM, the Federal Communications Commission ("Commission") explains that local telephone networks are in a period of technological transition from "networks based on time-division multiplexed (TDM) circuit-switched voice services running on copper loops to all-Internet Protocol (IP) multi-media networks using copper, co-axial cable, wireless, and fiber as physical infrastructure."[1] Along with innovation and improved services, the technology transition brings risk to competitive local exchange carriers ("CLECs") and customers that depend on current wholesale services. Substantial consumer harm is likely to occur if the products and services that CLECs and customers currently depend upon and desire are not available in the future as a result of a change in Commission policy.

Because numerous CLEC interconnection and access arrangements are based on legacy copper and TDM services, the Commission foresees the possibility that CLECs may face a future lack of access to critical inputs, and that this lack of access might prevent them from continuing to provide competitive alternatives to ILECs for their customers.[2] Without mandated access sold at reasonable wholesale prices and with the appropriate feature set, current CLECs' business models may be placed at risk. CLECs will potentially be foreclosed from providing their value-

[1] *See Technology Transitions et al.*, Notice of Proposed Rulemaking and Declaratory Ruling, 29 FCC Rcd 14968 (2014) ("NPRM") at ¶ 1.

[2] NPRM at ¶ 6.

added services at competitive prices. As a result, customers could lose the benefits of those services as well as the benefits of the ILECs' competitive responses to those services. Therefore, so that technology transitions are not used "as an excuse to limit competition that exists,"[3] the Commission mandated continued access into the next generation as follows:

> We therefore tentatively conclude that to receive authority to discontinue, reduce, or impair a legacy service that is used as a wholesale input by competitive providers, an incumbent LEC must commit to providing competitive carriers equivalent wholesale access on equivalent rates, terms, and conditions.[4]

To aid the Commission in evaluating the impact on consumers and competition of eliminating this access, Granite Telecommunications, LLC ("Granite") has asked us to provide illustrative estimates of the consumer welfare losses that would result from the Commission discontinuing the current access options or their equivalent for Granite and other similar CLECs.

Granite services approximately 1.4 million business lines.[5] It focuses on multi-location companies and government agencies. It serves 86 of the Fortune 100 companies. Overall, it serves approximately 4,800 business customers and their approximately 400,000 locations. Granite provides services in all 50 states. Granite specializes in providing DS0-level voice and DSL services at end-users' retail or branch locations, where a relatively small number of lines are needed (e.g., 76% of Granite's customer service locations have four or fewer lines, 99% fewer than 15 lines).[6]

By relying primarily on wholesale agreements with ILECs (e.g., Verizon, AT&T, CenturyLink, Frontier, FairPoint) to provide access, Granite focuses on providing service oriented communications for businesses. Granite provides a single bill even if the customer has lines in multiple regions, it provides live real time customer service 24/7/365, and it provides specialized reporting services for its business customers.[7] Granite is able to negotiate wholesale agreements for access with ILECs due to the regulatory backstop provided by

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[3] NPRM at ¶ 6.

[4] NPRM at ¶ 6.

[5] See, for example, Declaration of Kevin Nichols, dated June 12, 2015, filed herewith ("Nichols Decl.") at ¶¶ 2-3; see also Granite's May 27, 2015 Ex-parte Presentation, GN Docket No. 13-5 ("Granite May 27, 2015 Ex parte").

[6] See Nichols Decl. at ¶¶ 2-3; Granite May 27, 2015 Ex parte..

[7] See, for example, http://www.granitenet.com/Content/pdfs/Voice_LocalPhoneService.pdf.

Commission regulations that mandate access.[8] Granite relies primarily on "UNE-P replacement commercial agreements" to provide its services. Other CLECs provision lines with those commercial agreements, resale, Unbundled Network Elements ("UNEs"), their own facilities, or a mix of the four. In this letter, we refer to such commercial agreements, resale, and UNEs collectively as "ILEC Wholesale Services."

Wholesale access at reasonable prices allows CLECs to focus on the specific ways they can add value to services. CLECs can focus on providing superior quality, lower prices, or innovative services. For example, suppose that a CLEC can create an advantage over the ILEC in providing superior customer service or billing services. The current regulations allow the CLEC to provide those specific superior elements of its product offering in combination with wholesale inputs from the ILEC. As a result, the CLEC's customers benefit from better customer service and billing, and also lower prices. In addition, competition from the CLEC may give the ILEC an incentive to improve its own customer service and billing, or lower its prices. In that case, the ILEC's customers also benefit from the increased competition generated by the CLEC.

To generate significant competition and benefit customers, it is important that CLECs have access to wholesale offerings that match their business needs. For example, a CLEC like Granite that is focused on customer service and billing would not be able to place as much (if any) competitive pressure on an ILEC, if the only wholesale service available to it cost the same as the ILEC's retail rates, or included numerous unneeded features at extra cost.

The ILECs are vertically integrated firms that produce the various inputs that comprise the public switched telephone network. In contrast, most CLECs are not fully vertically integrated, but must purchase resale or UNE inputs from an ILEC in order to provide their own retail offerings and compete with that same ILEC in the retail market. CLEC access to these inputs is a regulatory concern because the ILECs have the ability and incentive to increase the CLECs' costs by charging high prices for the inputs, by degrading the quality of the inputs, or by refusing to sell the necessary inputs. An ILEC has the incentive to increase the CLECs' costs to disadvantage the CLECs and maintain or increase its retail prices.[9]

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[8] See Nichols Decl. at ¶ 5.

[9] See, for example, Thomas G. Krattenmaker & Steven C. Salop, *Anticompetitive Exclusion: Raising Rivals' Costs to Achieve Power over Price*, 96 YALE L.J. 209 (1986) and Michael H. Riordan & Steven C. Salop, *Evaluating Vertical Mergers: A Post-Chicago Approach*, 63 ANTITRUST L.J. 513 (1995). For the application to refusals to deal and price squeezes, see Steven C. Salop, *An Administrable and Efficient Legal Standard for Refusals to Deal and Price Squeezes by an Unregulated, Vertically Integrated Monopolist*, 76 ANTITRUST L.J. 709 (2010). That latter article

The Commission's current rules require the ILECs to offer access to CLECs at wholesale prices that permit the CLECs to compete to the benefit of consumers. These rules are specifically designed to prevent the ILECs from refusing to deal or setting monopolistic prices for this access for CLECs that cannot build their own duplicate networks. The current rules reflect the consumer benefits of CLEC competition and the fact that the ILECs developed their networks under the umbrella of Commission regulations. If the Commission were to allow the ILECs to escape those rules going-forward as the ILECs retire their older technology, that competition would be compromised and consumers would be harmed.

If the ILECs are permitted to stop offering their current wholesale services without offering CLECs equivalent wholesale access on equivalent rates, terms, and conditions when they retire their older technology, the CLECs will be forced to pay more to the ILECs, obtain less desirable and likely higher cost inputs, or exit the market. In any of these cases, the CLECs' customers will be harmed. The CLECs' customers will either have to pay higher prices to cover the CLECs' higher costs, purchase less preferred services from the ILECs, or stop using the services altogether. The ILECs' customers will also be harmed. The ILECs' customers will no longer gain the benefits of this current CLEC competition. The ILECs' customers will no longer be able to threaten to switch to these CLEC services (at least not as effectively), and so the ILECs will have the power to charge higher prices for their retail services.

Building upon this analysis, we provide estimates of the loss in consumer benefits that would result from not requiring the ILECs to continue to provide equivalent wholesale access on equivalent rates, terms, and conditions to Granite and other CLECs.

First, we assume that if the ILECs do not provide equivalent wholesale access, Granite and other CLECs will be foreclosed from providing lines provisioned with ILEC Wholesale Services. Granite estimates that its services (and the services of other similarly situated CLECs) provide approximately $30 per line per month more in value than the equivalent ILEC service.[10] This extra value comes from a combination of value-added services (e.g., a single bill) and lower prices. We assume that, if Granite and other CLECs are foreclosed from providing lines

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examines the properties of a standard for determining antitrust liability for an alleged refusal to deal or price squeeze by an unregulated monopolist under Section 2 of the Sherman Act. However, that relatively permissive standard likely would not be applied to a monopolist that controls an essential facility and is regulated under a broader public interest regulatory standard such as the Commission's.

[10] See Nichols Decl. at ¶ 7 and Declaration of Jorge DeJesus, dated June 12, 2015, filed herewith, at ¶¶ 3-4.

provisioned with ILEC Wholesale Services, their customers will have to switch to ILECs or CLECs using their own facilities and will lose approximately $30 per line per month in value.[11]

Based on data from the Commission, CLECs served approximately 12.3 million switched business lines provisioned with ILEC Wholesale Services at the end of 2013.[12] Assume conservatively that ILECs and CLECs using their own facilities do not change their prices in response to this foreclosure. Then the total consumer harm would be:

*12.343 million lines * $30 per line per month * 12 months per year = $4.443 billion per year*.

This estimate is conservative. It is reasonable to assume some upward price response to the foreclosure by the ILECs and CLECs using their own facilities to provision lines. Suppose that, in response to the foreclosure, these companies raised their prices by as little as $5 per line per month. This price increase would affect all customers. The former customers of foreclosed CLECs would be harmed by the $30 loss in value (relative to current prices) plus the $5 price increase, for a total harm of $35 per line per month. The total harm for this set of customers would be:

*12.343 million lines * $35 per line per month * 12 months per year = $5.184 billion per year.*

In addition, the current customers of ILECs and CLECs using their own facilities also would be harmed by $5 due to the price increase. The total harm for this set of customers would be:

*(4.325 + 31.041) million lines * $5 per line per month * 12 months per year*

= $2.122 billion per year.[13]

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[11] See Nichols Decl. at ¶ 7. We assume here for simplicity that the customers have a perfectly inelastic demand for phone service.

[12] See the FCC Local Telephone Competition Report released 10/14, available at https://www.fcc.gov/encyclopedia/local-telephone-competition-reports. According to Table 4 in the Commission report, as of December, 2013, resale (including UNE-P commercial agreements) and UNE based lines accounted for 8.318 + 5.937 = 14.254 million switched access lines, or 14.254 / 19.249 = 74% of all CLEC switched access lines. According to Table 8 in the Commission report, CLECs served 16.668 million switched access business lines. Assuming that the proportion of resale and UNE based CLEC lines is the same for business and residential lines, resale and UNE based CLECs provided 16.668 * 74% = 12.343 million switched access business lines, while CLECs using their own facilities provided the remaining 4.325 million switched access business lines.

[13] See note 12 above and Table 8 and Figure 8 of the FCC’s Local Telephone Competition Report.

Thus, the total harm to both sets of customers would be $7.306 billion per year (i.e., $5.184 + $2.122).

If the ILEC price increase instead were $10 per month, the harm would be greater. The harm to the customers of CLECs using ILEC Wholesale Services would be:

*12.343 million lines * $40 per line per month * 12 months per year = $5.924 billion per year.*

In addition, the current customers of ILECs and CLECs using their own facilities would be harmed by $10 due to the price increase. The total harm for this set of customers would be:

*(4.325 + 31.041) million lines * $10 per line per month * 12 months per year*

= $4.244 billion per year.

Thus, the total harm to both sets of customers would be $10.168 billion per year (i.e., $5.924 + $4.244).

These estimates indicate the large benefits generated by these CLECs and the types of harm that would be suffered by consumers if the Commission were to sunset the access requirements for the next-generation technology.

Respectfully submitted,

Steven C. Salop
Professor of Economics and Law, Georgetown University Law Center
Senior Consultant, Charles River Associates

Jeffrey E. Prisbrey
Vice President, Charles River Associates

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

In the Matter of Technology Transitions	))))	GN Docket No. 13-5
In the Matter of AT&T Petition to Launch a Proceeding Concerning the TDM-to-IP Transition	)))))	GN Docket No. 12-353
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In the Matter of Petition of Granite Telecommunications, LLC for Declaratory Ruling	)))))	WC Docket No. 15-114

DECLARATION OF KEVIN NICHOLS IN SUPPORT OF FILING OF GRANITE TELECOMMUNICATIONS, LLC

I, Kevin Nichols, hereby state as follows:

1. I am the Senior Vice President of Sales at Granite Telecommunications, LLC ("Granite"), a position I have held since 2002. Prior to then, I worked for over ten years in sales positions at another competitive local exchange carrier ("CLEC"). I earned a Bachelor's degree from Boston College in 1990. From having worked in the telecommunications industry for more than twenty years, I have acquired substantial knowledge about the industry, especially with respect to basic telephone exchange services, which is the market that Granite primarily serves.

2. Granite is a non-facilities based CLEC with approximately 1,300 employees. Granite is the carrier of record for more than 4,800 business customers in the United States. Granite provides these customers with more than 1,400,000 telephone and data lines at more than 400,000 service locations. The vast majority of Granite's services are TDM voice services.
3. Among Granite's customers are eight of the nation's 10 largest retail companies, 86 of the nation's Fortune 100 companies, the United States Postal Service and many other governmental entities. Granite specializes in providing DS0-level voice and DSL services at end-users' retail or branch locations, where a relatively small number of lines are needed (3 to 15 lines).
4. Granite has entered into wholesale, commercial agreements with incumbent local exchange carriers ("ILECs") including Verizon, AT&T, CenturyLink, Frontier and FairPoint. As a non-facilities based CLEC, Granite relies on these agreements to provide services to its customers.
5. Granite is able to negotiate its wholesale, commercial agreements due to the regulatory backstop provided by the current rules which require ILECs to provide CLECs access to combinations of elements of the ILECs' TDM-based networks.
6. Based on my years of experience in the industry competing with ILECs and other CLECs, I believe that the market for the provision of voice services to businesses is very competitive due primarily to the presence of CLECs that serve such customers using ILEC TDM-based voice services purchased under commercial agreements, resale or unbundled network elements. While certain CLECs sometimes use only their own facilities, most CLECs rely on ILEC facilities. In addition to Granite, CLECs using ILEC facilities include Windstream, XO, EarthLink, Birch, Access Point, U.S.

Telepacific, MetTel, Xchange Telecom, Bulls Eye, YTelecommunications, Impact Telecommunications, New Horizon Communications and Spectrotel. Granite provides service on more business lines than other CLECs who purchase wholesale voice services under UNE-P replacement wholesale commercial agreements.

7. Generally, CLECs, including Granite, offer business customers savings of about $30.00 per line per month as compared with the ILECs. Competition among the CLECs causes this significant savings as compared with the ILECs. These savings are a combination of rates lower than the ILECs' published rates and the savings that customers realize from the CLECs' superior service, including consolidated billing, one-stop shopping and associated support. Also included are the reduced costs to the customer resulting from consolidated repair reports and tickets, and more efficient processing of moves, adds, changes, and disconnect orders. In addition, some CLECs, such as Granite, offer customers the benefit of analyzing customers' usage patterns and providing cost savings recommendations. This mix of customer savings from reduced rates and costs vary by CLEC depending on each CLEC's particular value proposition, but on average, it is about $30.00 per voice line. Those customers' savings will be lost if Granite and other CLECs are not able to use the ILEC networks as they currently do and the customers are forced back to the ILECs.

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

Kevin Nichols
Senior Vice President of Sales
Granite Telecommunications, LLC

Executed on: June 12, 2015
Quincy, Massachusetts

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

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DECLARATION OF JORGE DEJESUS IN SUPPORT OF FILING OF GRANITE TELECOMMUNICATIONS, LLC

I, Jorge DeJesus, hereby state as follows:

1. I am Vice President of Financial Planning Analysis (FP&A) at Granite Telecommunications, LLC ("Granite"), where, among other things, I analyze and approve the prices Granite charges its customers.

2. I joined Granite in 2010 as a Senior Strategic Financial Analyst and have held positions of increasing responsibility in Granite's FP&A department since then. Before joining Granite, I worked for another competitive local exchange carrier ("CLEC") as well as an incumbent local exchange carrier ("ILEC"). I earned a Bachelor's degree in Business Administration from the University of Notre Dame in 1999. I have worked in the

telecommunications industry since 2002 and have acquired substantial knowledge about pricing in the industry, including thorough review of ILECs' retail rates.

3. CLECs such as Granite offer business customers savings of about $30.00 per line as compared with the ILECs. I derive this average cost savings per line based on my experience with price quotes to customers, ILEC retail rates, customer feedback, and the experience and knowledge of our customer-facing team members.

4. I calculate the $30.00 per line savings as follows:

    a. First, my teammates and I monitor the retail rates that major ILECs publish in tariffs, service guides and price lists. Those ILECs include AT&T, Verizon, CenturyLink, FairPoint, Qwest and Frontier. We use the published ILEC retail rates to calculate an average ILEC charge per line based on the features and characteristics of Granite's customers' lines.

    b. This average ILEC charge per line is then compared with Granite's average charge to its customers in each ILEC service territory.

    c. Finally a weighted average charge for the ILECs and Granite is calculated based on the number of Granite lines in each ILEC service territory. The difference between the two is the added savings per line.

    d. This added savings per line is added to the cost savings per line that CLEC customers realize because of the CLECs' superior service, which include: (i) consolidated, one-stop shopping for voice and data lines; (ii) eliminating the inefficiency of having to deal with numerous underlying service providers, depending on the specific customer location at issue; (iii) consolidated repair reports and more efficient processing of moves, adds, changes and disconnect orders; (iv) a single billing platform that is customizable to the individual customers' billing systems and preferences; and (v) analysis of customer usage to suggest efficiencies and avoid extraneous or unnecessary lines or features.

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

Jorge DeJesus
Vice President of Financial Planning Analysis
Granite Telecommunications, LLC

Executed on: June 12, 2015
Quincy, Massachusetts