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February 14, 2001

Hand Delivery

**RECEIVED**

**FEB 14 2001**

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 12th Street, S.W.  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: EX PARTE -- CC Docket No. 01-9: Application of Verizon  
Pursuant to Section 271 of the Telecommunications Act of 1996 to  
Provide InterLATA Services in Massachusetts

Dear Ms. Salas:

On February 13, 2001, Paul Bobeczko, Vijetha Huffman, Michael Pelcovits, Chris Frentrup, Robert Lopardo, Mark Schneider and I on behalf of WorldCom, Inc. met with Rich Lerner, Carol Canteen, Jennifer McKee, Rhonda Lein and Richard Kwiatkowski of the Competitive Pricing Division to discuss Verizon's refiled section 271 application to provide long distance service in Massachusetts. Specifically, we discussed our TELRIC analysis of whether UNE prices are cost-based in Massachusetts, and the importance of comparing rates in Massachusetts with other states, as set forth in the attached materials which were provided at the meeting.

In accordance with section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206, an original and one copy of this Notice are being filed with your office. In addition, a copy of this Notice and enclosure is being transmitted by fax to Ann Berkowitz at Verizon as requested in the Commission's Public Notice.

Sincerely,



Keith L. Seat

No. of Copies rec'd 071  
List A B C D E

Enclosure

cc (w/o encls.): Rich Lerner, Carol Canteen, Jennifer McKee, Rhonda Lein and Richard Kwiatkowski  
cc: (w/encls.): Susan Pie, Josh Walls, Cathy Carpino, Ann Berkowitz (by fax)

**Verizon's Section 271 Application for  
Massachusetts Should Be Denied:**

**Verizon's Above-Cost Pricing and Other Barriers  
Prevent Robust Local Exchange Telephone  
Competition in Massachusetts**

February 13, 2001

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# **Above-Cost Pricing Prevents Robust Local Residential UNE-P Competition**

# UNE-P Is Key to Widespread Local Residential Competition

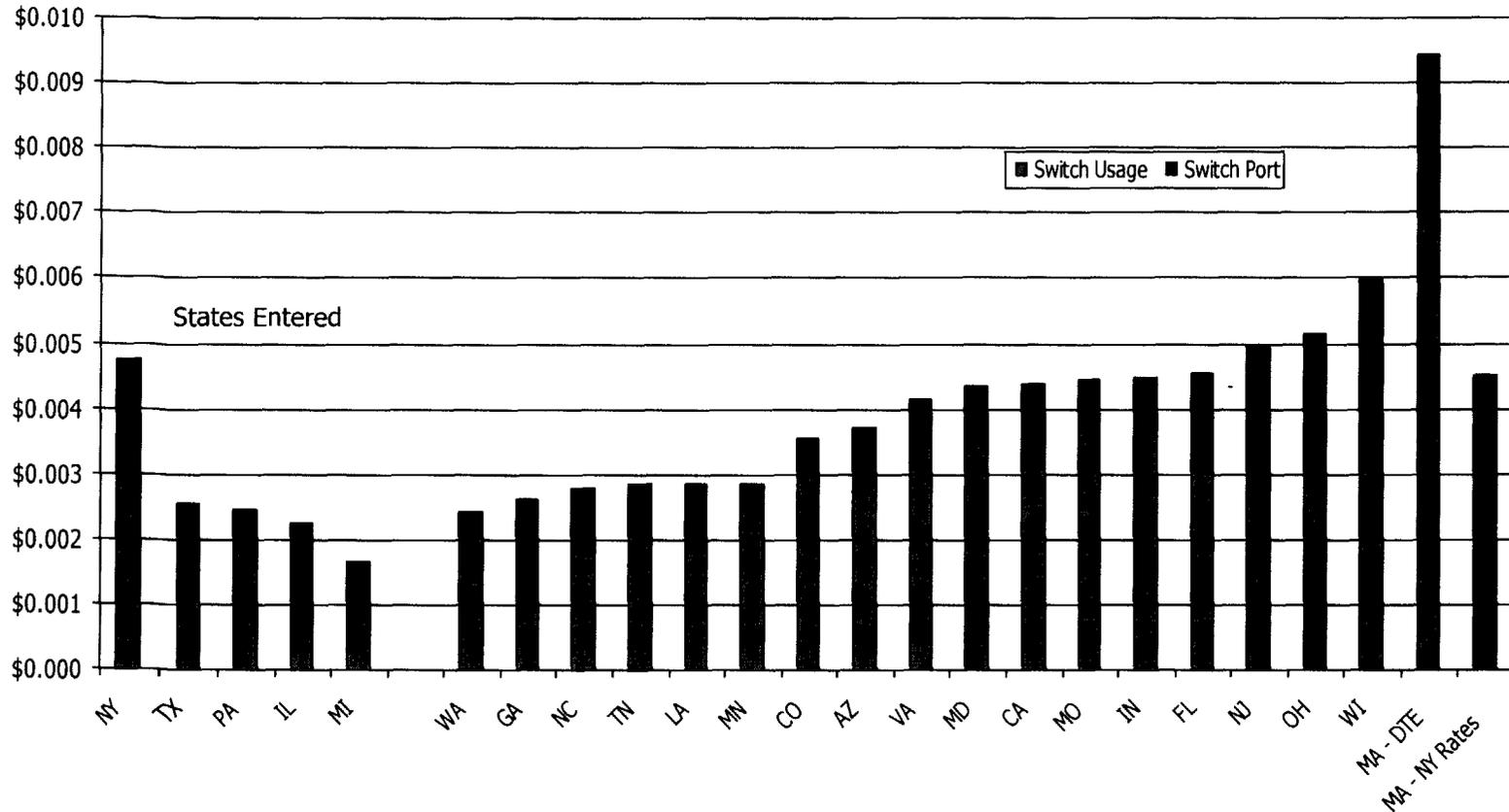
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- UNE-Platform necessary for ubiquitous residential competition
  - Cable/other facilities have limited reach, limited build-out
  - Non-UNE-P expansion slow, capital requirements high
  - Resale discount better than most states, but still a loser
- Where UNE-P pricing is minimally acceptable (and other barriers being lifted), WorldCom will enter:
  - New York entered 12/98
  - Texas entered 4/00
  - Pennsylvania entered 8/00
  - Michigan and Illinois entered 12/00, despite BOC's serious Operations Support Systems (OSS) issues
- Above-cost prices prevent local entry and robust competition in many states

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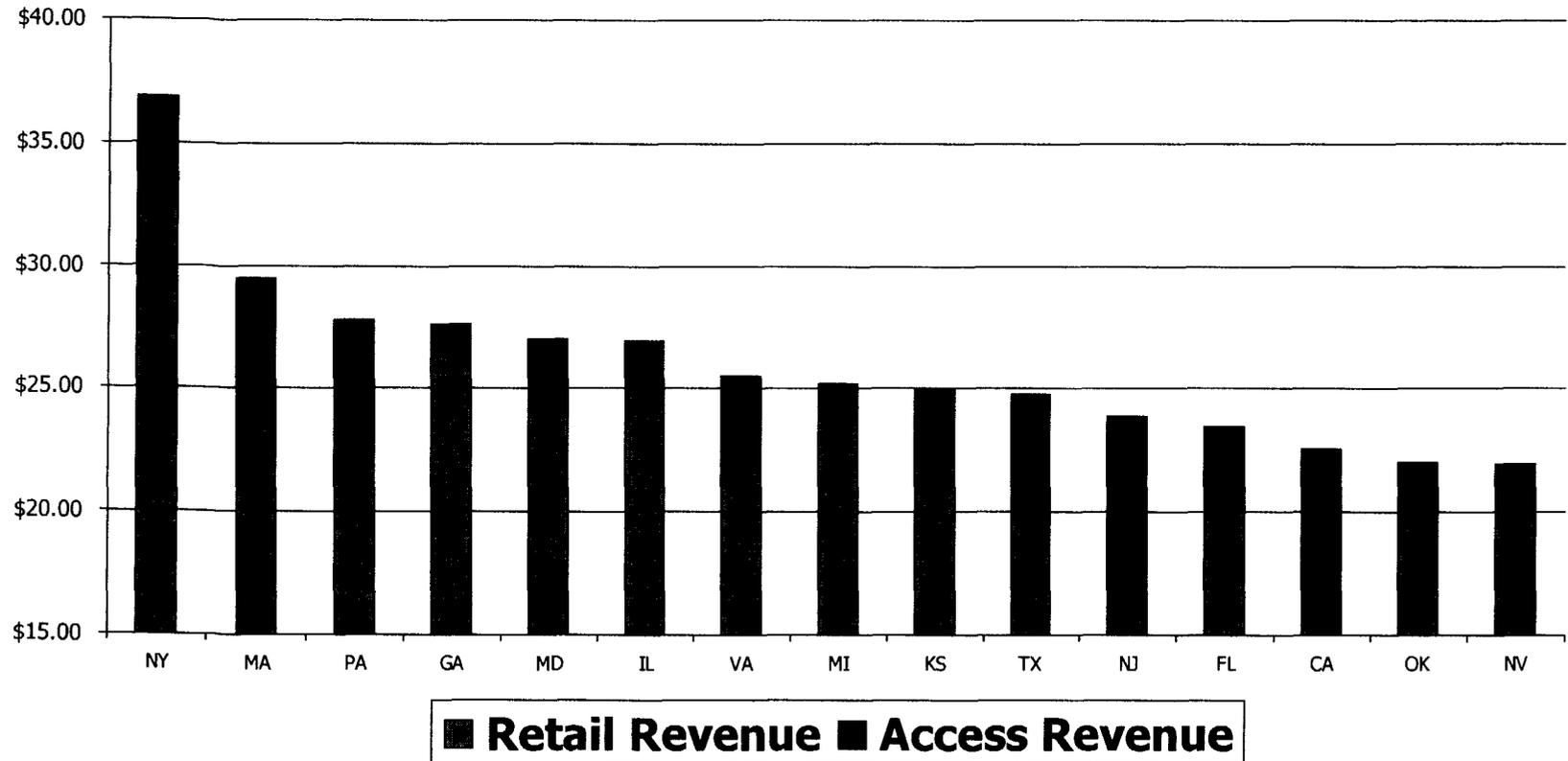
# **Non-Cost-Based Switching Rates Improperly Prevent or Restrain Local Competition**

# UNE Costs Are Too High for Competitive Entry in Many States: Switching Rates in Largest States



- Rates per minute in BOC regions of the largest states have been calculated by dividing the estimated monthly switching, transport and port costs per line by total local and long distance minutes (originating & terminating).
- The port charge in IL includes unlimited switching at no extra charge; the effective switching rate is the result of other elements, including transport.

# Local Residential Revenue by State



- Monthly BOC residential retail rates for dominant product (to extent known) in states for which information is available.
- Includes Access Revenue from LD/LATA minutes; feature is Call Waiting for all states except TX (which is Call Waiting and Caller ID)
- FL rate is for unlimited product in the Miami area (highest in state), plus an additional \$1.25 for ECS calling.

# Considerations Previously Permitting Acceptance of NY Rates Are Not Present Here

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- Massachusetts regulatory environment unlike NY
  - Massachusetts Commission (DTE) refused to open up pricing docket to adjust rates prior to pending section 271
  - DTE defends unreasonable 1996 rates as TELRIC
  - DTE claims effect on competition is irrelevant
- NY Commission (PSC) acknowledged that switching rates are flawed due to Verizon misrepresentations
  - PSC relied on existence of adequate margin to permit competition in NY pending adjustment of flawed rates
  - Pricing case will soon correct rates in NY
  - True-up will occur after rates corrected
- Switching rates that were found reasonable in New York where they enabled competition are not reasonable in Massachusetts where they do not

# More Recent and Better Pricing Data than New York's Are Now Available

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- Unreasonable to rely on flawed 1997 NY rates when more recent and better pricing data now available
  - Costs of switching have declined since MA and NY cost studies
- Recent Pennsylvania proceedings adopted switching rates far below rates in NY
  - Upheld in state court appeal in October 2000
- Recent FCC switching cost estimate not available when NY decided switching costs
  - April 1997 NY estimate: average total cost \$193 per line
    - Data from New York Telephone depreciation studies, covers 33 switches purchased in 1993 and 1994
  - Nov. 1999 FCC estimate: average total cost \$117 per line
    - Data from depreciation studies (946 observations) and Rural Utilities Service (139 observations), covers switches purchased from 1989 - 1996
    - Found fixed and per line costs

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# **Non-Cost-Based Loop Rates Prevent Robust Local Competition**

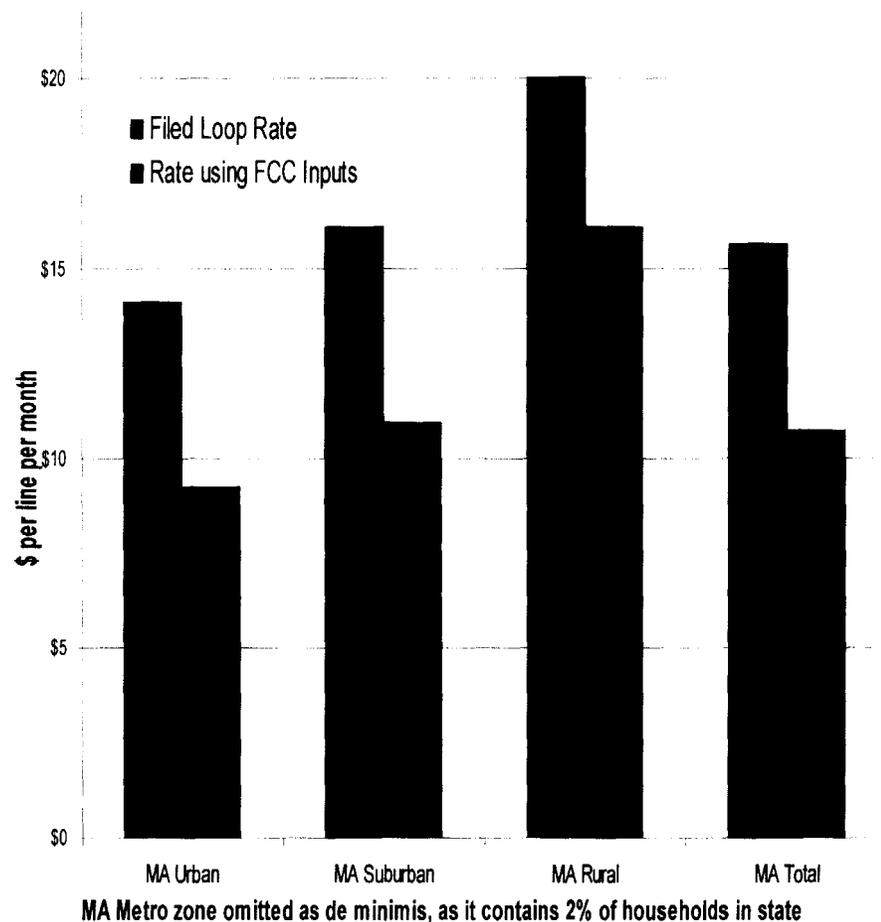
# Verizon's Loop Prices Must Be Reduced Substantially to Be Cost-Based

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- Verizon resisted providing electronic spreadsheet of its loop cost model
  - Formulas in electronic version required to analyze model by creating Workpaper Part A, which was attached to Verizon's February 14, 1997 compliance filing at the Massachusetts Commission (DTE)
- Analysis of the model reveals numerous input issues, requiring reduction of loop prices by about one-third to be cost-based

# Loop Rate Is About \$5/Month Too High

- Verizon's loop cost study (adopted by MA DTE) made numerous errors in:
  - Utilization Factors
  - Pole Inputs
  - Cost of NIDs
  - Cost of Cable
  - Cost of Capital
- Using inputs from FCC's Synthesis Model reduces loop rate to \$10.71 instead of Verizon's \$15.66



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# **Comparison of Massachusetts Pricing with Other States Reveals Problems Preventing Robust Local Competition**

# UNE-P Pricing in MA and States with 271 Approval or Where Competition Is Occurring

	<u>MA--DTE</u>	<u>MA--"NY"</u>	<u>NY</u>	<u>TX</u>	<u>PA</u>	<u>IL</u>	<u>MI</u>	<u>KS</u>	<u>OK</u>
Households (000)	2,376	2,376	5,973	5,117	3,398	3,574	3,050	851	1,029
Zone Density	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Revenue:</b>									
Local	\$25.14	\$25.14	\$32.74	\$19.90	\$22.42	\$25.23	\$23.70	\$22.39	\$20.21
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.13</u>	<u>\$4.90</u>	<u>\$5.38</u>	<u>\$1.73</u>	<u>\$1.48</u>	<u>\$2.64</u>	<u>\$1.81</u>
Total Revenue (1)	\$29.48	\$29.48	\$36.87	\$24.80	\$27.80	\$26.96	\$25.18	\$25.03	\$22.02
<b>Telco:</b>									
Unbundled switch port	\$4.49	\$2.00	\$2.50	\$2.90	\$1.90	\$5.01	\$2.53	\$1.61	\$2.25
Unbundled loop	\$15.66	\$15.66	\$14.81	\$14.15	\$14.01	\$9.81	\$10.15	\$14.04	\$14.84
UNE switching & transport (2)	<u>\$21.68</u>	<u>\$10.50</u>	<u>\$10.60</u>	<u>\$4.17</u>	<u>\$5.02</u>	<u>\$1.25</u>	<u>\$1.97</u>	<u>\$4.23</u>	<u>\$5.47</u>
Total Telco (3)	\$41.83	\$28.16	\$27.91	\$21.22	\$20.93	\$16.07	\$14.65	\$19.88	\$22.57
<b>Gross Margin (line/month)</b>	(\$12.35)	\$1.32	\$8.96	\$3.58	\$6.87	\$10.89	\$10.53	\$5.15	(\$0.55)

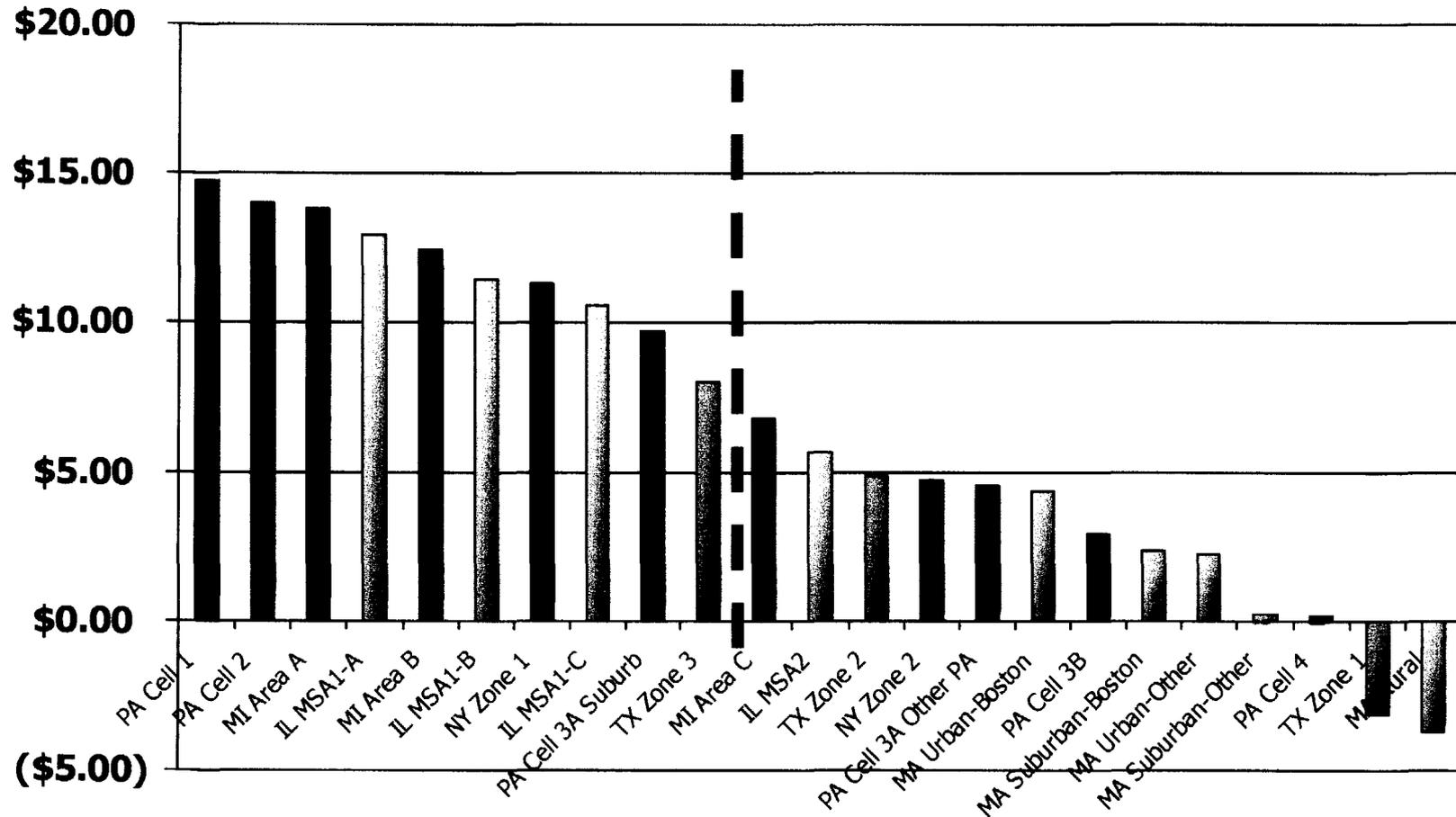
1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (1.5 in TX), and SLC.

2 MA--"NY" is calculated with "NY" switching rates as tariffed in MA.

3 Does not include Non-Recurring Charges (NRCs).

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

# Gross Margin by Zone in Massachusetts and Five States WorldCom Has Entered



MA Metro zone omitted as de minimis, as it contains only 2% of households in state.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

# Massachusetts - Verizon (by zone)

	<u>MA--STATE</u>	<u>METRO</u>	<u>URBAN BOSTON</u>	<u>URBAN OTHER</u>	<u>SUBURBAN BOSTON</u>	<u>SUBURBAN OTHER</u>	<u>RURAL</u>
Households (000)	2,376	48	517	148	120	1,377	166
Zone Density	100%	2%	22%	6%	5%	58%	7%
<b>Revenue:</b>							
Local	\$25.14	\$26.65	\$26.65	\$24.53	\$26.65	\$24.53	\$24.53
Access	\$4.34	\$4.34	\$4.34	\$4.34	\$4.34	\$4.34	\$4.34
Total Revenue (1)	<u>\$29.48</u>	<u>\$30.99</u>	<u>\$30.99</u>	<u>\$28.87</u>	<u>\$30.99</u>	<u>\$28.87</u>	<u>\$28.87</u>
<b>Telco:</b>							
Unbundled switch port	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Unbundled loop	\$15.66	\$7.54	\$14.11	\$14.11	\$16.12	\$16.12	\$20.04
UNE switching & transport (2)	\$10.50	\$10.41	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50
Total Telco (3)	<u>\$28.16</u>	<u>\$19.95</u>	<u>\$26.61</u>	<u>\$26.61</u>	<u>\$28.62</u>	<u>\$28.62</u>	<u>\$32.54</u>
<b>Gross Margin (line/month)</b>	\$1.32	\$11.04	\$4.38	\$2.26	\$2.37	\$0.25	(\$3.67)

1 BOC retail rates, without discount. Includes line fee, usage, touch tone, 1 feature (call waiting @ \$2.84) and SLC. Boston Area revenues shown more precisely in Urban and Suburban zones.

2 Reflects switching and transport costs based on NY switching rates.

3 Does not include \$0.19 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

# New York - Verizon (by zone)

	<u>State Average</u>	<u>Urban Zone 1</u>	→ <u>Rural Zone 2</u>
Households (000)	5,973	3,846	2,128
Distribution	100%	64%	36%
<b><u>Revenue:</u></b>			
Local	\$32.74	\$32.64	\$32.91
Access	<u>\$4.13</u>	<u>\$4.13</u>	<u>\$4.13</u>
Total Revenue (1)	\$36.87	\$36.77	\$37.04
<b><u>Telco:</u></b>			
Unbundled switch port	\$2.50	\$2.50	\$2.50
Unbundled loop	\$14.81	\$12.36	\$19.24
UNE switching & transport	<u>\$10.60</u>	<u>\$10.60</u>	<u>\$10.60</u>
Total Telco (2)	\$27.91	\$25.46	\$32.34
<b>Gross Margin (line/month)</b>	<b>\$8.96</b>	<b>\$11.31</b>	<b>\$4.70</b>

1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (Call Waiting @ \$5.19), and SLC.  
Reflects message rate product.

2 Does not include \$3.73 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

# Texas - SBC (by zone)

	<u>State Average</u>	<u>Rural Zone 1</u>	<u>Zone 2</u>	<u>Urban Zone 3</u>
Households (000)	5,117	1,061	2,398	1,657
Distribution	100%	21%	47%	32%
<b>Revenue:</b>				
Local	\$19.90	\$18.66	\$19.67	\$21.03
Access	\$4.90	\$4.90	\$4.90	\$4.90
Total Revenue (1)	\$24.80	\$23.56	\$24.57	\$25.93
<b>Telco:</b>				
Unbundled switch port	\$2.90	\$3.25	\$2.15	\$1.94
Unbundled loop	\$14.15	\$18.98	\$13.65	\$12.14
UNE switching & transport	\$4.17	\$4.44	\$3.91	\$3.85
Total Telco (2)	\$21.22	\$26.67	\$19.71	\$17.93
<b>Gross Margin (line/month)</b>	<b>\$3.58</b>	<b>(\$3.12)</b>	<b>\$4.86</b>	<b>\$8.00</b>

1 BOC retail rates, w/without discount. Includes line fee, usage, 1.5 features (100% of Call Waiting @ \$2.80, 50% of Caller ID @ \$6.15 above average LD and SLC. Reflects unlimited local product for Texas.

2 Does not include \$2.56 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

# Pennsylvania - Verizon (by zone)

	State Average	Urban Cell 1	Cell 2	Cell 3 "A" Suburb	Cell 3 "A" Other PA	Cell 3 "B"	Rural Cell 4
Households (000)	3,398	226	618	714	650	184	1,007
Distribution	100%	7%	18%	21%	19%	5%	30%
<b>Revenue:</b>							
Local	\$22.42	\$26.53	\$26.53	\$25.23	\$20.10	\$18.44	\$19.21
Access	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38
Total Revenue (1)	\$27.80	\$31.91	\$31.91	\$30.61	\$25.48	\$23.82	\$24.59
<b>Telco:</b>							
Unbundled switch port	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90
Unbundled loop (2)	\$14.01	\$10.25	\$11.00	\$14.00	\$14.00	\$14.00	\$17.50
UNE switching & transport	\$5.02	\$5.02	\$5.02	\$5.02	\$5.02	\$5.02	\$5.02
Total Telco (3)	\$20.93	\$17.17	\$17.92	\$20.92	\$20.92	\$20.92	\$24.42
<b>Gross Margin (line/month)</b>	<b>\$6.87</b>	<b>\$14.74</b>	<b>\$13.99</b>	<b>\$9.69</b>	<b>\$4.56</b>	<b>\$2.90</b>	<b>\$0.17</b>

1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (Call Waiting @ \$3.62), and SLC. Reflects Unlimited Band 1 product.

2 The average loop rate corresponds to the tariffed rate effective 9/30/2000.

3 Does not include \$1.06 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

# Illinois - AIT (by zone)

	State Average	Urban 			Rural
		MSA1- A	MSA1- B	MSA1- C	MSA2
Households (000)	3,574	99	1,109	2,320	46
Distribution	100%	3%	31%	65%	1%
<b>Revenue:</b>					
Local	\$25.23	\$20.09	\$23.07	\$26.54	\$21.59
Access	\$1.73	\$1.73	\$1.73	\$1.73	\$1.73
Total Revenue (1)	\$26.96	\$21.82	\$24.80	\$28.27	\$23.32
<b>Telco:</b>					
Unbundled switch port	\$5.01	\$5.01	\$5.01	\$5.01	\$5.01
Unbundled loop	\$9.81	\$2.59	\$7.07	\$11.40	\$11.40
UNE switching & transport	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25
Total Telco (2)	\$16.07	\$8.85	\$13.33	\$17.66	\$17.66
<b>Gross Margin (line/month)</b>	\$10.89	\$12.97	\$11.47	\$10.61	\$5.66

1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (Call Waiting @ \$2.25), and SLC.

2 Does not include \$29.00 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

# Michigan - AIT (by zone)

		Urban	→ Rural	
	<u>State Average</u>	<u>Area A</u>	<u>Area B</u>	<u>Area C</u>
Households (000)	3,050	634	1,233	1,183
Distribution	100%	21%	40%	39%
<b>Revenue:</b>				
Local	\$23.70	\$25.31	\$24.20	\$22.32
Access	\$1.48	\$1.48	\$1.48	\$1.48
Total Revenue (1)	\$25.18	\$26.79	\$25.68	\$23.80
<b>Telco:</b>				
Unbundled switch port	\$2.53	\$2.53	\$2.53	\$2.53
Unbundled loop	\$10.15	\$8.47	\$8.73	\$12.54
UNE switching & transport	\$1.97	\$1.97	\$1.97	\$1.97
Total Telco (2)	\$14.65	\$12.97	\$13.23	\$17.04
<b>Gross Margin (line/month)</b>	<b>\$10.53</b>	<b>\$13.82</b>	<b>\$12.45</b>	<b>\$6.76</b>

1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (Call Waiting @ \$5.00), and SLC.

2 Does not include \$0.35 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

# Kansas - SBC (by zone)

	<u>State</u>	<u>Zone 3</u> <u>Metro</u>	<u>Zone 2</u> <u>Suburban</u>	<u>Zone 1</u> <u>Rural</u>
Households (000)	851	419	320	112
Density	100%	49%	38%	13%
<b><u>Revenue:</u></b>				
Local Revenue (1)	\$22.39	\$22.74	\$22.10	\$21.91
Access Revenue	<u>\$2.64</u>	<u>\$2.64</u>	<u>\$2.64</u>	<u>\$2.64</u>
Total Revenue	\$25.03	\$25.38	\$24.74	\$24.55
<b><u>Telco:</u></b>				
Switch Port	\$1.61	\$1.61	\$1.61	\$1.61
Loop	\$14.04	\$11.86	\$13.64	\$23.34
Switching & Transport	<u>\$4.23</u>	<u>\$3.49</u>	<u>\$4.41</u>	<u>\$6.44</u>
Total Telco (2)	\$19.88	\$16.96	\$19.66	\$31.39
<b>Gross Margin (line/month)</b>	\$5.15	\$8.42	\$5.07	(\$6.84)

1 Includes line fee, 1 feature (Call Waiting @ \$5.00), and SLC.

2 Does not include NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

# Oklahoma - SBC (by zone)

	<u>State</u>	<u>Zone 3</u> <u>Metro</u>	<u>Zone 2</u> <u>Suburban</u>	<u>Zone 1</u> <u>Rural</u>
Households (000)	1,029	553	312	164
Density	100%	54%	30%	16%
<b><u>Revenue:</u></b>				
Local Revenue (1)	\$20.21	\$21.47	\$19.17	\$17.95
Access Revenue	<u>\$1.81</u>	<u>\$1.81</u>	<u>\$1.81</u>	<u>\$1.81</u>
Total Revenue	\$22.02	\$23.28	\$20.98	\$19.75
<b><u>Telco:</u></b>				
Switch Port	\$2.25	\$2.18	\$2.21	\$2.58
Loop	\$14.84	\$12.14	\$13.65	\$26.25
Switching & Transport	<u>\$5.47</u>	<u>\$5.21</u>	<u>\$5.00</u>	<u>\$7.24</u>
Total Telco (2)	\$22.57	\$19.53	\$20.86	\$36.07
<b>Gross Margin (line/month)</b>	(\$0.55)	\$3.74	\$0.12	(\$16.32)

1 Includes line fee, 1 feature (Call Waiting @ \$3.00), and SLC

2 Does not include NRC

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)