

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

In the Matter of

Bell Atlantic Telephone Companies  
Revisions in Tariff FCC Nos. 1 and 11

Verizon Telephone Companies  
Tariff FCC Nos. 1 and 11

CC Docket No. 01-140

Transmittal Nos. 1373 and 1374

Transmittal Nos. 23 and 24

**VERIZON'S REPLY TO  
OPPOSITIONS TO DIRECT CASE**

**REDACTED FOR PUBLIC INSPECTION**

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**I. Introduction and Summary.**

The record in this proceeding overwhelmingly supports the reasonableness of Verizon's proposed rates, which are consistent with the rates approved by the state commissions in the relevant states. The Commission similarly should approve Verizon's proposed rates and terminate this investigation.

The commenters do not demonstrate any flaws in Verizon's cost studies. AT&T offered its own rework of Verizon's spreadsheets that calculated power rates almost half the level proposed by Verizon. However, almost the entire difference is based on a change to the engineering, furnished, and installed ("EF&I") factor that AT&T derives from two of its own power jobs in Pennsylvania. As is shown in the attached Declaration of Robert G. Grenier, the AT&T power jobs are useless, because they do not have information necessary to separate

material investment from installation-related investment. AT&T also uses alternative factors for overhead cost that contradict the Commission’s policy for expanded interconnection.

In the tariff filing, the Direct Case, and the July 27, 2001 *ex parte* filing, Verizon provided an unprecedented amount of data to support the revisions to its rates for DC power to expanded interconnection arrangements. Nonetheless, the commenters castigate Verizon for not providing even more data in response to the questions raised in the *Designation Order*.<sup>1</sup> As Verizon explained in its Direct Case, it was simply impossible to provide the detailed information and source material in the *Designation Order*’s numerous data requests in the three short weeks that the bureau allowed. Verizon is continuing to work to provide the remaining data and will submit it as soon as it possible, as evidenced by the July 27 filing. However, the voluminous data already provided are more than sufficient to demonstrate the reasonableness of Verizon’s proposed rates.

**II. Verizon’s Engineering, Furnished, and Installed (“EF&I”) Factor Is Based On The Best, Most Comprehensive Data Available.**

Not surprisingly, the commenters attack Verizon’s EF&I factor, since it is has the most impact on final power costs. Installing power equipment involves extensive engineering and installation activities on the part of both Verizon’s employees and the vendors that supply the equipment, which adds costs that are several times the amount of the material investments alone. WorldCom argues (at 2) that Verizon’s EF&I factor is only a “snapshot” of installations in a given year and that it double-counts freight costs. Sprint argues (at 2-3) that individual items in

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<sup>1</sup> *Bell Atlantic Telephone Companies*, DA 01-1525, Order Designating Issues for Investigation (rel. June 26, 2001) (“*Designation Order*”). *See* Association for Local Telecommunications Services, et. al (“CLECs”) at 2-10; AT&T at 2-3; WorldCom at 1-2.

Verizon's records show unexplained variations in the ratio of installed cost to material cost. CLECs complain (at 9) that Verizon did not provide separate EF&I data by central office. And AT&T presents its own analysis of two power installation jobs in Pennsylvania to argue that the EF&I factor should be as low as [\*\*\* Begin AT&T Proprietary\*\*\*] [\*\*\*End AT&T Proprietary\*\*\*]. *See* AT&T, Turner Declaration, ¶¶19-20.

These criticisms have no merit. Verizon developed its EF&I factor using the best, most comprehensive data available about the actual costs it incurs specifically to install power equipment. Rather than perform a study of a limited number of installation jobs or develop estimates of a hypothetical power installation job, as Sprint suggests (at 3), Verizon examined *every* installation that was booked to a power account for the entire year of 1998 and compared the total installed cost to the cost of the material investment to develop an EF&I ratio.<sup>2</sup> These costs were booked to power accounts long before this investigation was begun and long before Verizon began preparation of its tariff filing to update its power rates. These are the same costs that Verizon incurs to install power equipment for itself as well as for collocators, and Verizon did not selectively exclude any jobs from this analysis. Applying the 1998 EF&I factor to the forward-looking unit investments in the power study provides the most accurate estimate of the costs of providing power to collocation arrangements.

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<sup>2</sup> WorldCom argues (at 2) that a year is not enough, as there were few generators installed in 1998. However, a full year of data is representative of the average installation costs for all jobs, since most power work involves additions to the power plant rather than entirely new installations. Additionally, when the 1998 installation data are grouped by job, the data demonstrate a range of large as well as small power installation jobs, and the assumption that small jobs always have higher EF&I factors than large jobs is contrary to actual experience. *See* Grenier Declaration, ¶¶ 19-21.

In contrast, AT&T used just two of its own power installation jobs in Pennsylvania to argue that Verizon's installation factor should be reduced to **\*\*\* Begin AT&T Proprietary\*\*\*** **\*\*\*End AT&T Proprietary\*\*\*** from 2.7852, meaning that AT&T believes that Verizon's cost of installing power for collocation should be **\*\*\* Begin AT&T Proprietary\*\*\***

**\*\*\*End AT&T Proprietary\*\*\*** This is the primary reason why AT&T's alternative calculation of Verizon's costs produces rates of approximately \$10 or less per amp, generally less than half the level in Verizon's exhibits.<sup>4</sup>

As is shown in the attached declaration of Robert Grenier, AT&T's exhibits have no probative value whatsoever. The key issue is not the total amount of the investment in AT&T's two projects, but how much of those amounts are material investment rather than installation costs. In order to properly calculate an EF&I factor, it is necessary to analyze each line item data in each spec on the project invoices to determine and segregate the investments for material asset items (rectifiers, batteries, etc.) from the miscellaneous investments associated with cable racking, power cable, iron work, etc., which are part of the installation costs for those material assets. The job specs attached to AT&T's comments do not contain either the investments or critical accounting data, specifically the accounting code, equipment category, continuing

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<sup>3</sup> *See* AT&T, Turner Declaration, ¶ 19. A factor of 2.7852 means that \$1.76 of EF&I cost is incurred for every dollar of power equipment investment that is installed. A factor of **\*\*\* Begin AT&T Proprietary\*\*\*** **\*\*\*End AT&T Proprietary\*\*\***

<sup>4</sup> *See* AT&T, Attachment 2. The other reason is that AT&T uses overhead factors as low as **\*\*\* Begin AT&T Proprietary\*\*\*** **\*\*\* End AT&T Proprietary\*\*\*** Verizon addresses the overhead loading issue below. Without these two adjustments, AT&T's cost study would produce the same results as Verizon's.

property record number, and property record code, necessary to identify the costs that should be classified as material investments. Without this information, it is impossible to calculate the actual EF&I ratio for these two jobs, because AT&T includes both material investment and installation-related investment in the “material investment” in the denominator of its EF&I ratio. By overstating the material investment in its study, AT&T produces an unreasonably low EF&I factor that cannot be applied to the material investment in Verizon’s cost study, which does not include any installation-related investments.

This is not the first time that AT&T has pushed for unrealistically low power rates based on faulty data. As Verizon noted in its direct case, the state commissions in New York and Massachusetts flatly rejected AT&T’s attempts to apply an EF&I factor of 1.6. *See* Verizon Direct Case, Attachment 4, Exhibit 1, p. 64; Exhibit 2, p. 22. AT&T submitted the same two Pennsylvania jobs in a previous Pennsylvania proceeding, where Verizon made the same point it does here about the fact that the “material investments” in AT&T’s job specs include installation-related investment.<sup>5</sup> The Turner Declaration does not even mention the fact that Verizon previously exposed this fatal flaw, much less make any attempt to rebut Verizon’s arguments. The incomplete data in AT&T’s studies are simply useless in calculating Verizon’s installed cost for power equipment.

Sprint criticizes (at 2-3) the variability in the differences between material costs and installed costs in the data underlying the EF&I factor. However, as is shown in the Grenier

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<sup>5</sup> *See Pennsylvania PUC v. Bell Atlantic-Pennsylvania, Inc.*, Docket No. R-00994697, Revised Surrebuttal Panel Testimony of Verizon (filed April 19, 2000). AT&T later joined in an industry settlement of state collocation issues that included a rate of \$19.56 per load amp for the Verizon South states.

Declaration, the amount of investment in each specification of a project invoice that is recorded in Verizon's accounts as either "material" or "installation" can vary greatly depending on how much miscellaneous investments associated with cable racking, power cable, iron work, etc. are included in the specification. *See* Grenier Declaration, ¶ 8. For instance, spec 005 has only [\*\*\*Begin Verizon Proprietary\*\*\*] [\*\*\*End Verizon Proprietary\*\*\*] in installation costs, consisting of miscellaneous installation-related investment such as cable racking materials and supporting structures. This does not mean that the job had an EF&I factor of [\*\*\*Begin Verizon Proprietary\*\*\*] [\*\*\*End Verizon Proprietary\*\*\*] It simply means that only a small part of the investment in this job spec was properly booked to material investment, because almost all of it was installation-related cost. Looking at individual booked items says nothing about the overall ratio of installed costs to material costs for a particular power installation job.

WorldCom claims, without any support, that Verizon has double-counted freight costs in both the EF&I factor and in the material cost for "conduit/emergency lights." *See* WorldCom at 2. This is incorrect. Transportation costs are included in "material" costs only when the manufacturer ships the equipment to a Verizon warehouse. Transportation costs associated with moving the equipment from the warehouse to the central office are included in the "total installed" cost. The ratio of these costs, which produces the EF&I factor, does not double-count any shipping costs.

CLECs complain (at 9) that Verizon did not produce a narrative describing each job listed in its accounting records and the actual bills for the jobs. As explained above, Verizon produced as much data as was possible in the brief interval allowed for preparation of its direct case.

Producing actual billing data for hundreds of jobs is a burdensome task that Verizon is still undertaking. CLECs' further criticism that the data are not sorted by central office is irrelevant. The purpose of the study was not to develop office specific, or even job-specific, costs. Rather, it was to develop an average EF&I factor for power that would be representative of power costs throughout the footprint. By providing the most comprehensive data available, Verizon has produced an EF&I factor that fairly represents its region-wide costs for installing power equipment.

The commenters also argue that Verizon's 1998 data are not representative of its power installation costs, because the EF&I data include small increments to central office power plant capacity, or because the cost studies represent "small, inefficient power plants." *See* Sprint at 4-6; AT&T at 5-6, Turner Declaration, ¶¶ 12-15. Neither criticism is valid. The DCPR data in Verizon's exhibits display line item data categorized by the continuing property record number and not by total job.<sup>6</sup> Therefore, no conclusion can be drawn from individual line items about the size of the job from which it was recorded. *See* Grenier Declaration, ¶ 19. When 1998 data are grouped by central office, the data show that there are a mix of large and small power jobs. *See id.*, ¶ 20 & Attachment 2. Moreover, these data show that the assumption that small jobs have higher EF&I factors than large jobs is not valid. For example, there are [\*\*\***Begin Verizon**

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<sup>6</sup> These include line items with relatively small amounts because the Commission's rules for expensing items of small value do not apply to central office equipment in account 2212. *See* 47 C.F.R. § 32.2000(a)(4). They only apply to items of small value in the other support accounts – accounts 2112 (motor vehicles), 2113 (aircraft), 2114 (special purpose vehicles), 2115 (garage work equipment), 2116 (other work equipment), 2122 (furniture), 2123 (office equipment) and some items in 2124 (general purpose computers). The plug-ins included in the calculation of the EF&I factor used in the DC Power study are all classified as 377C Digital Switch Equipment in account 2212.

**Proprietary\*\*\*]**

. **[\*\*\*End Verizon Proprietary\*\*\*]** *See id.*, ¶ 21.

The argument that the size of the power plant in the Verizon model is too small also misses the mark. *See* Grenier Declaration, ¶¶ 24-25. The cost studies include the capacity of each type of equipment in a typical rural, suburban, urban, and metro office (as estimated by Verizon's power engineers based on their years of experience actually engineering DC power plants) to develop the cost per amp for that equipment. *See* generally Workpapers 1.0, p. 3, lines 1, 7, 16, 22, 27, 32, 41. This represents the costs that Verizon incurs as it plans its future power plant capacity. The maximum size of a power plant is ultimately determined by the amperage capacity of its microprocessor. Accordingly, if 1200 amps are required at the time that the switch and power plant are installed, the engineers will typically install a 2,600 amp microprocessor. However, the rectifiers and batteries will carry an initial total amperage rating of around 1,200 amps to meet the current demand estimated by engineering. The engineers will then increase the number of battery strings and rectifiers, and with them the total amperage output of the components, as the demand for power capacity grows over time. When a power plant is installed, demand for DC power is not at the maximum level of capacity output. Therefore, other components of the power plant are properly sized to meet demand at a point in time where less than maximum power is necessary. To invest in power plant equipment only when demand calls for it is the most efficient method both in terms of engineering and use of capital.

### III. Verizon's Overhead Loading Factor Is Consistent With The Commission's Rules.

Verizon complied with the Commission's rules by using overhead loading factors that were prescribed in the *Physical Collocation Tariff Order*.<sup>7</sup> The commenters claim that these factors are based on outdated data and that they do not reflect Verizon's actual common overhead costs. *See* AT&T at 10-13; WorldCom at 3-4; Sprint at 8-9. These arguments miss the point about Verizon's use of the Commission-prescribed factors in the tariff filing. Verizon is not claiming that these factors reflect its actual common costs, which are significantly higher than those permitted by the Commission's order. Nor do they reflect the use of the methodology in the *Physical Collocation Tariff Order* applied to current costs, which would cause the New York factor to decline but which would cause the other factors to increase, especially in New England. *See* Verizon Direct Case, Exhibit H. Verizon used factors that were based on the comparison of its direct costs in the previous tariff investigation to its lowest *prices* for DS1 and DS3 services. *See Physical Collocation Tariff Order*, Appendix D. The Commission's formula ignores actual cost in favor of a competitive test. Verizon complied with this test, and can apply updated cost/price information to calculate the overhead loading factor if ordered to do so.

The normal rule for services that must meet a traditional cost showing is that they may include reasonable fully distributed overhead costs as measured by comparison with data in the carriers' automated reporting and management information system ("ARMIS") reports. *See*

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<sup>7</sup> *See Local Exchange Carriers' Rates, Terms and Conditions for Expanded Interconnection Through Physical Collocation for Special Access and Switched Transport*, 12 FCC Red 18730, ¶¶ 313-314 (1997) ("*Physical Collocation Tariff Order*").

*Policy and Rules Concerning Rates for Dominant Carriers*, 6 FCC Rcd 2637, ¶128 & n.176 (1991). In the initial order investigating Verizon’s proposed rates for expanded interconnection through physical collocation, the Common Carrier Bureau prescribed interim maximum overhead loading factors based on the carriers’ ARMIS reports. *See Ameritech Operating Companies, et. al*, 8 FCC Rcd 4589, ¶¶ 34-37 & Appendix C (1993). For Verizon, the overhead loading factors derived from ARMIS data for power were 1.5 for Verizon North and 1.75 for Verizon South. Later, in the *Physical Collocation Tariff Order*, the Commission adopted a new rule, unique for expanded interconnection, that required the carriers to apply overhead loading factors no higher than the lowest factor implied in a comparison of price to cost for services that compete with those offered by collocators, regardless of the carriers’ actual overhead costs. *See Physical Collocation Tariff Order*, ¶¶ 313-314. This reduced the allowable overhead loading for power rates to 1.32 for Verizon New York, 1.23 for Verizon South, and 1.0 (zero overhead recovery) for Verizon New England. *See id.*, Appendix C. The Commission did this for policy reasons, not because it found that Verizon’s actual costs were lower than those in its ARMIS reports.

For these reasons, the only issue here is whether Verizon should use the overhead loading factors prescribed in 1997, or whether it should use updated factors based on a comparison of current costs to current rates. In the *Designation Order*, the bureau required Verizon to provide information about its current overhead loading factor under this standard. Using current data, Verizon showed that the overhead loading factors would be **\*\*\*Begin Verizon Proprietary\*\*\*]**

**\*\*\*End Verizon Proprietary\*\*\*]** Exhibit 1 provides additional information

to support these factors, including the underlying cost studies and the tariff citations. In performing this analysis, Verizon compared costs by representative state (New York for Verizon North and New Jersey for Verizon South) for 1999 and 2000 to state-wide average circuit rates as of July 1, 2001. *See* Verizon Direct Case, Exhibit H. Because costs and rates are moving targets, these factors may vary depending on the time period selected and the geographic level of desegregation. However, as Verizon's data show, an update is likely to cause some of Verizon's DC power charges to increase substantially.

The commenters' arguments that Verizon should adopt even lower overhead loading factors are completely irrelevant in light of the Commission's pricing standard for expanded interconnection. For instance, they argue that Verizon's overhead loading factor does not reflect efficiencies gained from recent mergers. *See* AT&T at 7; Sprint at 8-9. The Commission's standard has nothing to do with Verizon's actual overhead costs. Moreover, if Verizon used its actual current overhead costs as reported in ARMIS, the factors would be significantly higher, despite the effect of merger-related cost savings. AT&T argues that the Commission should prescribe extremely low overhead loading factors based on a hodgepodge of state proceedings. *See* AT&T at 8; Turner Declaration ¶ 24. AT&T does not present any data underlying these factors or any explanation of the costing methodologies upon which they are based. Consequently, even if the Commission were to change its policy for expanded interconnection and allow Verizon to use a cost-based overhead loading factor, AT&T's comments do not provide a record upon which a cost-based factor could be developed.

WorldCom argues (at 3-4) that Verizon's overhead loading factor includes costs that are already recovered in its annual cost factors ("ACFs") for land and building costs and

administration costs. This is incorrect. Again, the methodology prescribed by the Commission is not based on Verizon's actual common overhead costs. Even if it were, there would be no double-counting. Verizon's ACFs include only the *portions* of the accounts cited by WorldCom that are *directly* related to the investments in a particular account (which in this case, is the 377C Digital Switching account) that includes both switching equipment and power investments. *See* Exhibit 2. The remainder of these expenses, in addition to other common overhead costs such as Executive and Planning (account 6710), Accounting and Finance (account 6721) and Human Resources (account 6723) would be included in a cost-based overhead loading factor, if the Commission were to adopt one. WorldCom's claim (at 4) that Verizon's cost study contains the same flaw as the Cincinnati Bell cost study that the Commission rejected in the *Physical Collocation Tariff Order* is false. In that case, Cincinnati Bell calculated its ACFs using a fully distributed cost methodology that included general overhead costs. *See Physical Collocation Tariff Order*, ¶ 78. Verizon did not.

#### **IV. Verizon's Annual Cost Factor For Depreciation Is Consistent With The Commission's Accounting Rules.**

The commenters argue that Verizon's depreciation ACF should be based on longer service lives for either power equipment itself or for each type of equipment that it serves, in this case, collocated transport equipment. *See* AT&T at 8-9; CLECs at 15-17. This argument has no merit. Verizon did not contrive a power equipment depreciation rate for the purposes of this tariff filing, and doing so as proposed by the commenters would be improper. Verizon used its *actual* booked depreciation rate for power equipment, which is included in the switching account for group depreciation accounting. *See* Verizon Direct Case, Exhibit G. This does not mean, as

the commenters apparently believe, that power equipment has the same service life as switching equipment. It means that the power and switching equipment were combined in a group account representing the average of service lives of all of the equipment in that account. The commenters want Verizon to use a different depreciation rate for purposes of this cost study than the one that it actually uses in its books of account and that forms the basis for its reporting of costs in ARMIS. This would contradict the actual depreciation costs that Verizon incurs for power equipment.

AT&T seems to have completely misunderstood Verizon's explanation of the group accounting principle, as it argues that Verizon conceded that the digital switching account has a nine year asset life. *See* Turner Declaration, ¶ 29. To the contrary, Verizon simply used the example of a *hypothetical* group of assets with an average 9-year life to illustrate the fact that some equipment in that group will have lives that are longer or shorter than 9 years. *See* Verizon Direct Case, Exhibit G, p. 1. The group life for digital switching (377C Digital Switch account 2212) is actually 16 to 17.5 years. If, as proposed by AT&T, Verizon used the group life for digital circuit equipment (357C Digital Circuit Other account 2232) rather than for digital switching equipment, the service life would be reduced to 10 to 11 years, and the depreciation ACF would *increase*. *See* Exhibit 3.

## **V. Comparisons Of Verizon's DC Power Rates To Those Of Other Carriers Are Invalid.**

In its Direct Case, Verizon explained that comparisons of Verizon's proposed rates for DC power to those of other incumbent local exchange carriers are invalid, because other carriers add substantial nonrecurring charges while Verizon recovers its costs solely through recurring

charges. *See* Verizon Direct Case, Exhibit I. AT&T argues that such comparisons should be made, because other carriers recover the same investments as Verizon in their recurring rates, citing an SBC cost study as an example. *See* AT&T at 10, Turner Declaration, ¶ 33 & Attachment 5. This is incorrect. The SBC cost study does not bring forward all of the costs to the per-amp recurring rate. For example, the 4,000 amp job includes \$135,360 of costs for cable, power distribution center, and rectifiers that does not flow through to the per-amp rate. In addition, as Verizon showed in its Direct Case (and as AT&T does not dispute), SBC imposes nonrecurring charges of over \$14,000 for recovery of power facilities installed directly to a collocation arrangement, while Verizon amortizes these costs through its recurring rates. *See* Verizon Direct Case, Exhibit I, Attachment 8. Verizon's Direct Case shows that its recurring rates produce annual and five year total charges that are within the same range, and in some cases significantly below, the combination of SBC's recurring and nonrecurring power rates.

AT&T also argues that Verizon's proposed rates are significantly higher than those that it charges in Nevada. *See* Turner Declaration, ¶ 36. However, those rates were reached through a settlement agreement that the parties (including AT&T) specifically agreed was limited to the State of Nevada and is not portable to any other jurisdiction.<sup>8</sup> In addition, the Nevada rates are based on a different costing methodology and a different rate structure. The Nevada costs do not include the cost for the emergency engine/backup generator, nor do they include the cost for the emergency lights. These components are an integral component of the DC power design and they

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<sup>8</sup> *See Staff of the Public Utilities Commission to open a docket to investigate costing and pricing issues related to industry-wide collocation costs pursuant to the Telecommunications Act of 1996 and the Commission's Regulations*, Docket No. 99-11035, Verizon California Inc., dba Verizon Nevada Stipulation, (dated April 16, 2001), ¶ 4.5.

constitute over 40% of the total Verizon East power investment. Also, the Nevada rate structure contains a separate nonrecurring rate of \$69.07 (labor only) per amp to engineer and install the power cable, while the Verizon East study includes these costs in the monthly rate. If the nonrecurring charge of \$69.07 were to be converted to a monthly recurring rate, it would add \$1.72 to the \$15.12 rate.

A more relevant comparison would be the settlement agreement (again including AT&T) in the Verizon South states, which includes a DC power rate of \$19.56 per amp, almost identical to the rate proposed here in Verizon's federal tariff. Although the power rate was part of a broader settlement that included other issues, and although settlement agreements do not represent any party's concession on the merits of a dispute, the Verizon South settlement at least is a more direct comparison using the same costing methodologies. Moreover, the settlement rates have been approved by all of the state commissions that have considered the settlement. *See* Verizon Direct Case at 3. Similarly, the state Commissions in New York and Massachusetts have approved DC power rates for collocation that are in the same range as Verizon proposes in its federal tariff.<sup>9</sup> Clearly, if any comparison is made, it should be to the state rates in the same region, for the same Verizon local exchange carriers.

## **VI. Verizon Did Not Double-Count Land And Building Costs.**

WorldCom argues (at 3) that Verizon double-counted recovery of land and building costs by including space occupied by collocation in "total land and building investment associated

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<sup>9</sup> *See* Direct Case, p. 3. The New York commission has approved rates of \$19.64 per amp for less than or equal to 60 amps and \$19.56 per amp for greater than 60 amps. The Massachusetts commission has approved power rates in the range of \$17.78 per amp in urban areas to as high as \$31.82 per amp in rural areas.

with central office equipment,” and that Verizon did not explain how it was able to isolate only the land and building costs associated with central office equipment from other land and building investment. In Verizon South, Verizon used a special study for its cost allocation manual to determine the amount of land and building costs that are incurred to support central office investment, and then made an adjustment to exclude costs associated with the collocation room construction/site preparation for which collocators paid nonrecurring rates and space costs recovered through collocation monthly space charges. In Verizon North, Verizon included a small amount of collocator space in developing the land and building factor, but the impact was negligible. *See* Verizon Direct Case, Exhibit E, n. 1.

CLECs are incorrect in claiming (at 13-14) that Verizon’s rates for space preparation include recovery of power costs. CLECs cite to the tariff transmittal that established Verizon’s space preparation charge in Verizon’s Direct Case, which states that the nonrecurring space preparation charge includes installation of “cable racks, cabinets, caging, lighting, and power equipment.” *See* Verizon Direct Case, Attachment 5, Telesector Resources Group Transmittal No. 165, Description and Justification, p. 12. However, as Verizon explained, the only power equipment costs that are recovered through the space preparation charges are for installation of AC power (i.e., 120 volt convenience outlets, not for DC power for transmission equipment). *See* Verizon Direct Case, Exhibit E, pp. 1-2. This is confirmed in Attachment 5 by comparing Workpaper WS-2, which presents the costs for DC power that are recovered through the per-amp recurring charge, to the Workpaper WS-4, entitled “Expanded Interconnection Cage Construction Components,” which lists costs only for “cabling and fusing for AC power supply” and “AC power engineering.” The latter cost study supported the \$54,900 space preparation

charge in the Verizon North tariff, which was reduced in later tariff filings to the current rate of \$47,686.<sup>10</sup>

## VII. CLECs' Claim Of Collocation Tariff Abuse Is Unfounded.

CLECs claim (at 24-25) that Verizon is unlawfully attempting to recover charges for voice grade cabling and termination charges in its state tariffs for collocation arrangements that the CLECs ordered under the federal tariffs. Although this has absolutely nothing to do with Verizon's proposed rates for DC power, it should not go unchallenged. CLECs are simply wrong in claiming that Verizon has not applied the correct tariff rates to these connections. Very simply, there is neither a federal *rate* nor a federal *service* providing voice grade cabling and termination to expanded interconnection arrangements. The collocators purchased these connections to obtain access to state voice grade private line services and to voice grade unbundled network elements ("UNEs") in the state tariffs. Because they are jurisdictionally intrastate, they can only be provided through the state tariffs. Although a collocator may have initially purchased the collocation space out of federal tariff, Verizon does not require collocators to purchase separate federal and state arrangements when a particular arrangement is covered by

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<sup>10</sup> *See* Verizon Tariff FCC No. 11, Section 31.28.1(A)(2). For this reason, ALTS is incorrect that the Verizon North space preparation charge has never been adjusted. Moreover, its claim (at 14) that Verizon's state collocation tariff preparation charges average less than \$13,500 is incorrect. The rate in the ALTS chart for New York state only includes the engineering and implementation fee. It does not include the \$5,000 application fee. *See* Verizon New York PSC Tariff No. 8, Section 35.15.1 to 35.15.9. In addition, the New York commission required Verizon to recover the rest of its space preparation charges through recurring monthly rates for space. *See* New York PSC Case Nos. 95-C0657, 94-C0095, 91-C1174, 96-C0036, Opinion 99-4 (issued Feb. 22, 1999). These fees cost 984.50 per month for a 100 square foot space, not including costs for construction of a cage. Consequently, the New York recurring rate plus the engineering and application fees are more than the federal space preparation charge beyond a five year period.

both the federal and state tariff. Rather, Verizon permits the collocator to order connections from both tariffs to the same arrangement. This saves the collocator from incurring unnecessary space costs. Consequently, when the collocators ordered voice grade connections to these collocation arrangements, they became liable for the charges for those connections in the state tariffs.

### **VIII. CLECs' Criticisms Of Verizon's Data Have No Merit.**

CLECs argue (at 17-18) that Verizon's data are suspect, questioning the 1.0 "utilization factor" on page 2 of the cost study for each state and the demand quantities for DC power amps in the worksheets. These arguments have no merit. For these cost studies, Verizon used a standard spreadsheet that has a "utilization factor" that is applied to all components. Here, no general utilization factor was needed, so the factor in line 4 of page 2 of Workpaper 1.0 was set at zero as a placeholder. Since utilization factors were needed only for two specific components (the engine and the rectifier), they were included in the investment development workpapers for these components (page 3 of 3). With regard to demand quantities, CLECs argue that Verizon "expects to bill for 167,240 amps per year" but that Verizon also states that it has fused 2.2 million amps region-wide. There is no inconsistency. The demand projection of 167,240 amps is the amount Verizon projects to bill out of the *federal* tariff under the new rates when collocators indicate how many *load* amps they draw. *See* Verizon Telephone Companies Transmittal No. 1373, Workpapers 1-3, 2-2. The 2.2 million fused amps includes power facilities to both federal and *state* collocation arrangements, and it typically includes 1.5 or more times the amount of amps actually drawn, as the normal practice is to fuse higher than expected load. *See* Verizon Direct Case, Exhibit A, p. 2.

CLECs also argue (at 18-19) that some sort of factor should be used to reduce power rates to reflect the fact that collocators simply shift demand from Verizon's facilities to their own, allegedly more efficient equipment, which should require less need for power facility upgrades. This is pure speculation, and contrary to the facts. Until the recent economic slowdown, Verizon's own access lines were increasing each year despite the entry of the collocators. To the extent that they absorbed some of the growth in access lines and in new services such as DSL, they imposed incremental demand on the central office power plant in addition to Verizon's own increased needs. Moreover, part of the costs for DC power include the facilities that are built specifically for each collocation arrangement, which must be recovered regardless of how quickly the collocator installs equipment. Collocators put the same demand on the central office power plant as other equipment, and they should bear a fair share of the forward-looking costs for providing power to their equipment.

#### **IX. Verizon's Certification Requirement Is Reasonable.**

CLECs complain (at 20-21) that it is unnecessary for Verizon to require collocators to provide an annual certification of the amount of power that their equipment draws. They argue that there is no evidence that collocators draw power up to the fused capacity and that it is unreasonable to believe that any would do so. In fact, Verizon's own experience shows that some collocators do draw up to the amount of power fused. In addition, Verizon's tariff permits carriers to order fuses up to 2.5 the amount of load capacity indicated in the collocation application. This would permit a collocator to add equipment drawing twice as much power as initially indicated without risking a blown fuse. Verizon does not meter power drawn by collocators and does not have the resources to monitor installation of collocation equipment in

every office. Since Verizon relies on the collocators to self-report, an annual certification requirement is a reasonable method of ensuring that the collocators update their accounts for the amount of power drawn by their equipment.

### Conclusion

For the foregoing reasons, the bureau should reject the criticisms of Verizon's Direct Case and terminate this investigation.

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Respectfully submitted,

By:   
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Dated: August 7, 2001

**CC 01-140  
VERIZON REBUTTAL**

**EXHIBIT 1**

**OVERHEAD COST STUDY**

**CONFIDENTIAL MATERIAL REDACTED**

## OVERHEAD COST STUDY

Attached is the direct cost data supporting Attachment 7 of Verizon's Direct Case. In addition, the following are cites to the tariff provisions for the rates that Verizon used in developing average circuit rates to calculate an overhead loading factor.

The weighted average rates were developed using the month-to-month, 5 and 7 year term Price Cap rates that were in effect prior to the Annual Filing (which became effective on July 3, 2001). The rates were weighted according to a breakdown of price cap demand for the base period year 2000. Overall weighted rates were developed by examining the portion of demand falling into each of zones 1, 2 and 3. In tariff FCC No. 11, these rates are contained in Section 31.7.9 (A), (B) & (C). In Tariff FCC No. 1, the rates are in Section 7.5.9 (A), (B) & (C).

**CC 01-140  
VERIZON REBUTTAL**

**EXHIBIT 2**

**EXPENSES NOT CONSIDERED IN DIRECT ACFS**

**CONFIDENTIAL MATERIAL REDACTED**

**CC 01-140  
VERIZON REBUTTAL**

**EXHIBIT 3**

**ANNUAL CARRYING CHARGE FACTORS AND ASSET  
LIVES COMPARISON**

**VERIZON EAST**  
**ANNUAL CARRYING CHARGE FACTORS AND ASSET LIVES COMPARISON**  
**377C DIGITAL SWITCH ACFS BELOW USED IN POWER STUDY**  
**357C DIGITAL CIRCUIT OTHER NOT USED IN POWER STUDY, BUT IS PROVIDED HERE FOR COMPARISON**

**VZ SOUTH**

ACCOUNT / FRC	DC	DE	MD	NJ	PA	VA	WV
377C DIGITAL SWITCH - 2212: ACF	0.2722	0.2474	0.2512	0.2522	0.2408	0.2362	0.2559
377C DIGITAL SWITCH - 2212: ASSET LIFE	16	16	16	17.5	16	17.5	16
357C DIGITAL CIRCUIT OTHER - 2232: ACF	0.2736	0.2519	0.2663	0.2548	0.2633	0.2610	0.2597
357C DIGITAL CIRCUIT OTHER - 2232: ASSET LIFE	11	11	11	11	11	11.5	11

**VZ NEW YORK**

ACCOUNT / FRC	NY
377C DIGITAL SWITCH - 2212: ACF	0.2639
377C DIGITAL SWITCH - 2212: ASSET LIFE	16
357C DIGITAL CIRCUIT OTHER - 2232: ACF	0.2828
357C DIGITAL CIRCUIT OTHER - 2232: ASSET LIFE	10

**VZ NEW ENGLAND**

ACCOUNT / FRC	MA	ME	NH	RI	VT
377C DIGITAL SWITCH - 2212: ACF	0.2432	0.2281	0.2193	0.2324	0.2378
377C DIGITAL SWITCH - 2212: ASSET LIFE	15	15	15	15	15.5
357C DIGITAL CIRCUIT OTHER - 2232: ACF	0.2464	0.2473	0.2449	0.2609	0.2520
357C DIGITAL CIRCUIT OTHER - 2232: ASSET LIFE	11	11	11	11	11