BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, DC 20554

DOCKET FILE COPY ORIGINAL

RECEIVED
JAN 24 2002
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
		)

COMMENTS OF THE NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES (NASUCA)

Prepared by:

David Gabel, PhD
Professor, Queens College

Robert Loube, PhD
Director, Economic Research
Rhoads & Sinon, LLC

Submitted by:

Michael J. Travieso
Maryland People's Counsel
6 St. Paul Street, Suite 2102
Baltimore, Maryland 21202
(410) 767-8150

Attorney for National Association
of State Utility Consumer Advocates
8300 Colesville Road, Suite 101
Silver Spring, Maryland 20910
(301) 589-6313

January 24, 2002

TABLE OF CONTENTS[1]

1 EXECUTIVE SUMMARY 8

2 PURPOSE OF THE STATEMENT 12

3 THE COST STUDIES FILED BY THE ILECS IN THIS PROCEEDING DO NOT JUSTIFY AN INCREASE IN THE SUBSCRIBER LINE CHARGE CAP 13

3.1 THE FCC MUST NOT ALLOW THE CALLS-PROPOSED SLC INCREASES TO CONTINUE BASED UPON STUDIES FOR WHICH OTHER PARTIES HAVE BEEN DENIED A MEANINGFUL OPPORTUNITY TO REVIEW 15

3.2 THE COST MODELS SUBMITTED BY THE ILECS FOR THIS PROCEEDING ARE NOT FORWARD-LOOKING COST MODELS BASED ON ECONOMIC COSTS AND VERIFIABLE ASSUMPTIONS 17

3.3 THE COST MODELS USED FOR THIS PROCEEDING AND DETERMINING INCREASES IN THE SUBSCRIBER LINE CHARGE CAP SHOULD BE BASED ON FORWARD-LOOKING ECONOMIC COSTS, AND NOT EMBEDDED COST METHODOLOGIES AS PROPOSED BY THE ILECS 18

3.4 THE COST MODELS SUPPLIED BY THE ILECS IN THIS PROCEEDING DO NOT PROVIDE FULL DISCLOSURE OF MODEL INPUTS AND ASSUMPTIONS 19

3.5 IT IS APPROPRIATE TO COMPARE THE COST INFORMATION PROVIDED BY THE ILECS WITH REASONABLE FORWARD-LOOKING COST ESTIMATES 21

3.6 THE STATES HAVE ESTABLISHED UNE RATES THAT PROVIDE A REASONABLE BENCHMARK FOR FORWARD-LOOKING COST ESTIMATES 23

3.7 THE ILECS' COST ESTIMATES OVERSTATE THE INTERSTATE PORTION OF LOOP AND PORT COSTS, AND THUS CANNOT BE USED TO JUSTIFY INCREASES IN THE SUBSCRIBER LINE CHARGE 24

4 IMPORTANT ASSUMPTIONS IN THE STUDIES SUBMITTED BY THE ILECS ARE FLAWED 27

4.1 CAPITAL COST AND DEPRECIATION ESTIMATES ARE NOT TRANSPARENTLY PRESENTED IN THE COST STUDIES SUBMITTED BY THE ILECS 27

4.2 SHARED AND COMMON COSTS ARE NOT PROPERLY ALLOCATED IN THE COST STUDIES SUBMITTED BY THE ILECS 29

4.3 NO INFORMATION IS PROVIDED REGARDING OUTSIDE PLANT ASSUMPTIONS IN THE COST STUDIES SUBMITTED BY THE ILECS 30

[1] We gratefully acknowledge the invaluable assistance provided by Steven Burns, Scott Kennedy, and Mark Kosmo, Ph.D.

4.4 INFORMATION ON FILL FACTORS IS NOT PROVIDED IN THE COST STUDIES SUBMITTED BY THE ILECS 31

4.5 OTHER INCONSISTENCIES AND UNSTATED ASSUMPTIONS IN THE COST MODELS ALSO CALL INTO QUESTION THE EFFICACY OF THE MODELS USED BY THE ILECS 32

4.6 FORWARD-LOOKING MARKETING EXPENSES ARE NOT INCORPORATED INTO THE ILEC COST STUDIES 33

4.7 ONLY ALLOWED MARKETING EXPENSES SHOULD BE INCORPORATED INTO SLC RATES 34

5 THE MODEL USED FOR NASUCA'S ANALYSIS IS A PUBLIC, FORWARD-LOOKING, ECONOMIC COST MODEL WHICH ESTIMATES COSTS BASED ON THE MOST EFFICIENT TECHNOLOGY AVAILABLE – IT IS THEREFORE A USEFUL TOOL FOR ASSESSING THE PROPOSED INCREASES IN THE SUBSCRIBER LINE CHARGE 38

5.1 THE NASUCA MODEL COVERS 80 STUDY AREAS, AND THE UNDERLYING ASSUMPTIONS ARE ROBUST CONCERNING COSTS AND THE ENGINEERING DESIGN OF THE LOOP 39

5.2 THE NASUCA MODEL RESULTS INDICATE THAT FORWARD-LOOKING SLC COSTS ARE UNDER $5 FOR ABOUT THREE-QUARTERS OF RESIDENTIAL AND SINGLE-LINE BUSINESS CUSTOMERS, AND THEREFORE THAT THE SLC CAP SHOULD NOT BE INCREASED 42

5.3 THE NASUCA MODEL RESULTS DEMONSTRATE THAT RESIDENTIAL AND SINGLE-LINE BUSINESS CUSTOMERS ARE CONTRIBUTING TO THE SUPPORT OF THE NETWORK, AND DO NOT RECEIVE A SUBSIDY 44

5.3.1 DEFAULT SCENARIO 45
5.3.2 FEEDER/DISTRIBUTION STRUCTURE SHARING SCENARIO 49
5.3.3 NON-TRAFFIC-SENSITIVE LOOP SCENARIO 51
5.3.4 COST OF CAPITAL SCENARIO 54
5.3.5 DEPRECIATION SCENARIO 56
5.3.6 12K FT SCENARIO 57

6 SHARED COSTS: THE COMMISSION'S COST ALLOCATION RULES DO NOT PROPERLY ASSIGN COSTS BETWEEN SERVICES INCLUDED AND EXCLUDED FROM THE DEFINITION OF UNIVERSAL SERVICE 59

6.1 THE FCC HAS RECOGNIZED IN THE PAST THAT ITS COST ALLOCATION RULES ARE NOT WELL-SUITED FOR ALLOCATING JOINT AND COMMON COSTS AMONG REGULATED AND NON-REGULATED SERVICES 60

6.2 BASIC EXCHANGE SERVICE SHOULD NOT BE USED TO CROSS-SUBSIDIZE DEREGULATED AND NON-SUPPORTED SERVICES SUCH AS DATA SERVICES SINCE THIS VIOLATES THE TELECOMMUNICATIONS ACT OF 1996 61

6.3 THE FCC'S APPROACH TO VIDEO DIALTONE SERVICE PROPERLY GUARDED AGAINST CROSS-SUBSIDIZATION OF COMPETITIVE SERVICES BY NON-COMPETITIVE ONES, AND

THE SAME PRINCIPLES SHOULD BE APPLIED TO THE PROVISION OF ADVANCED DATA SERVICES 61

6.4 BASED ON THE EXPERIENCE OF VIDEO DIALTONE SERVICE, CAREFUL AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND PRINCIPLES SHOULD ENSURE THAT CROSS-SUBSIDIES DO NOT OCCUR 62

6.5 THE COMMISSION WAS CONSISTENT THROUGHOUT THE DEVELOPMENT OF ITS POLICY ON VIDEO DIALTONE SERVICE THAT JOINT AND COMMON COSTS SHOULD BE SHARED AMONG THE SERVICES PROVIDED, AND THAT REGULATED SERVICES SHOULD NOT SUBSIDIZE UNREGULATED ONES 64

6.6 THE COMMISSION SHOULD DETERMINE A FIXED FACTOR FOR ALLOCATING JOINT AND COMMON COSTS AMONG SERVICES PROVIDED BY THE LOOP SINCE THE PRACTICE OF APPORTIONING 100% OF THE COSTS ON INTERSTATE LOOP RECOVERY TO THE SUBSCRIBER LINE CHARGE UNDER THE CALLS ORDER IS INCONSISTENT WITH THE COMMISSION'S EXPERIENCE IN ALLOCATION OF JOINT COSTS FOR VIDEO DIALTONE 66

7 THE COMMISSION HAS FAILED TO ADDRESS COST ALLOCATION OF LOOPS USED FOR VOICE AND DATA SERVICES 69

7.1 MAJOR ILECS HAVE RECENTLY INTERPRETED JOINT COST PRICING TO REQUIRE A NON-ZERO PRICE FOR ADVANCED TELECOMMUNICATIONS SERVICES, AND THE ILECS' COST STUDIES DO NOT REFLECT THEIR VIEW THAT A PORTION OF LOOP COSTS SHOULD BE ASSIGNED TO ADVANCED SERVICES WHEN THE LOOP IS USED FOR ADSL SERVICE 70

7.2 SOME STATE REGULATORY COMMISSIONS HAVE INTERPRETED JOINT COST PRICING TO REQUIRE A NON-ZERO PRICE FOR VOICE AND NON-VOICE SERVICES 74

7.3 A FEW STATE COMMISSIONS INTERPRET THE FCC'S ORDER'S AS MANDATING A ZERO PRICE FOR THE HIGH-FREQUENCY PORTION OF THE LOOP 78

7.4 PRICING POLICY FOR THE HIGH-FREQUENCY SPECTRUM UNE SHOULD BE SET IN A WAY TO PREVENT PRICE SQUEEZES 80

7.5 A NON-ZERO PRICE FOR THE HIGH-FREQUENCY PORTION OF THE LOOP NEED NOT RESULT IN A PRICE SQUEEZE 80

7.6 PRICING POLICY SHOULD PROMOTE DYNAMIC EFFICIENCY IN THE TELECOMMUNICATIONS MARKET 81

8 TODAY'S PUBLIC SWITCHED TELEPHONE NETWORK (PSTN) HAS BEEN CONSTRUCTED FOR THE PROVISION OF NON-VOICE ADVANCED SERVICES, AND THE SUBSCRIBER LINE CHARGE PRICING POLICY OF THE COMMISSION NEEDS TO REFLECT THIS FACT 83

8.1 THE PSTN HAS GRADUALLY EVOLVED TOWARDS AN ADVANCED SERVICES NETWORK 84

8.2 THE PROLIFERATION OF COMPUTERS, THE DEVELOPMENT OF COMPUTER NETWORKING, AND THE ADVENT OF THE INTERNET HAS HAD A MAJOR IMPACT ON THE PSTN 88

8.3 THE FCC WAS WELL AWARE OF THE CHANGES TAKING PLACE IN THE NETWORK AND ACTIVELY DEVELOPED POLICIES TO PROMOTE THE DEVELOPMENT OF ADVANCED SERVICES 94

8.4 THE APPROPRIATE MECHANISM FOR RECOVERING JOINT COSTS ON THE NETWORK IS BASED ON THE MARKET DEMAND FOR THE JOINTLY PROVIDED VOICE AND NON-VOICE SERVICES WHICH DIFFERENTIATES THE VALUE OF THE TWO SERVICES 98

8.5 TODAY'S TECHNOLOGY HAS MADE THE FIBER FEEDER PLANT INVESTMENT TRAFFIC-SENSITIVE 98

8.6 THE MOST RECENT ANNUAL COMPANY REPORTS OF THE ILECS CLEARLY SHOW THAT THEY INTEND TO INCREASINGLY EMPHASIZE THE PROVISION OF DATA SERVICES 103

8.7 ILECS WILL CONTINUE TO SEEK NEW TECHNOLOGIES FOR DEPLOYING ADVANCED TELECOMMUNICATION SERVICES 108

9 CONCLUDING REMARKS AND RECOMMENDATIONS 109

APPENDICES

APPENDIX A **Non-Rural Price-Cap Study Areas and Year 2000 Interstate Rate of Return**

APPENDIX B **The Determination of Residential and Single-Line Business Customers Net Contribution and Average SLC Costs****

APPENDIX C **Comparison of UNE Costs to ILEC Estimates of the Costs of Interstate Loop and Port Costs**

**This is proprietary information being provided only to the FCC as six tables -- one table per scenario as described in Section 5.3

LIST OF TABLES

Table 1 -- Bell Operating Company CMT Revenue and Forward-Looking Cost Estimates 25

Table 2 -- Comparison of Verizon Cost Filing to the ARMIS 43-01 and 43-04 Filings for the Year 2000 37

Table 3 -- Percentage Distribution of SLC Costs per Line for Six Scenarios 45

Table 4 -- Average SLC Costs and Net Contributions for the Six Scenarios 45

Table 5 -- Distribution of Residential and Single-Line Business Lines by SLC Cost for the Default Scenario 47

Table 6 -- Distribution of Residential and Single-Line Business Lines by SLC Cost for the Feeder/Distribution Structure Sharing Scenario 51

Table 7 -- Distribution of Residential and Single-Line Business Lines by SLC Cost for the Non-Traffic-Sensitive Scenario 54

Table 8 -- Distribution of Residential and Single-Line Business Lines by SLC Cost for the Cost of Capital Scenario 55

Table 9 -- Distribution of Residential and Single-Line Business Lines by SLC Cost for the Depreciation Scenario 57

Table 10 -- Distribution of Residential and Single-Line Business Lines by SLC Cost for the 12k ft Scenario 59

LIST OF FIGURES

Figure 1 – Distribution of Residential and Single-Line Business Lines 48

Figure 2 – Data Traffic is Growing to Dominate all Public Network Traffic 89

Figure 3 – Annual Infrastructure Investment by ILECS, CLECS, Cable, and Wireless 107

LIST OF ACRONYMS

AARP	American Association of Retired Persons
ACCC	Australia Competition and Consumer Commission
ADSL	Asymmetric Digital Subscriber Line
ATM	Asynchronous Transfer Mode
BFP	Base Factor Portion
BLC	Broadband Loop Carrier
BOC	Bell Operating Company
CALLS	Coalition for Affordable Local and Long Distance Service
CAM	Cost Allocation Manual
CAM	Customer Access Module
CA PUC	California Public Utilities Commission
CCL-MOU	Carrier Common Line Minutes of Use
CLEC	Competitive Local Exchange Carrier
CMT	Common Line, Marketing, and Transport Interconnection Charge
C-MUX	Customer Multiplexer
CSA	Carrier Serving Area
CT DPUC	Connecticut Department of Public Utility Control
DEM	Dial Equipment Minutes
DLC	Digital Line or Loop Carrier
DSL	Digital Subscriber Line
DSLAM	Digital Subscriber Line Access Multiplexers
FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Practices
HCPM	Hybrid Cost Proxy Model
HFPL	High-Frequency Portion of the Loop
HUNE	High-Frequency Unbundled Network Element
IDC	International Data Corporation
IDLC	Integrated Digital Loop Carrier
IEEE	Institute of Electrical and Electronics Engineers
ILEC	Incumbent Local Exchange Carrier
IP	Internet Protocol
ISDN	Integrated Services Digital Network
ISSLS	International Symposium on Services and Local Access
IXC	Interexchange Carrier
KHz	Kilohertz
LAS	Local Access Switches
LEC	Local Exchange Carrier
LRIC	Long Run Incremental Cost
MBPS	Megabytes per Second
MHz	Megahertz
MNPUC	Minnesota Public Utility Commission
NASUCA	National Association of State Utility Consumer Advocates
NECA	National Exchange Carrier Association

NETT	New England Telephone and Telegraph Company
NGDLC	Next Generation Digital Line Carrier
NGN	Next Generation Network
NID	Network Interface Device
NPRM	Notice of Proposed Rule Making
NYSDPS	New York State Department of Public Service
OFTEL	Office of Telecommunications (United Kingdom)
OSS	Operation Support Systems
PCS	Personal Communication Services
PICC	Presubscribed Interexchange Carrier Charge
POTS	Plain Old Telephone Service
PSD	Power Spectral Density
PSTN	Public Switched Telephone Network
RAM	Remote-Access Multiplexer
RAO	Responsible Accounting Officer
RBOC	Regional Bell Operating Company
RegTP	Regulatory Authority for Telecommunications and Posts (Germany)
RRD	Revised Resistance Design
RSS	Remote Switching Stage
RSU	Remote Switching Unit
SBC	Southwestern Bell Corporation
SEC	Securities Exchange Commission
SLC	Subscriber Line Charge
SNET	Southern New England Telephone
SONET	Synchronous Optimal Network
TELRIC	Total Element Long-Run Incremental Cost
TIC	Transport Interconnection Charge
TSLRIC	Total Service Long-Run Incremental Cost
UDLC	Universal Digital Loop Carrier
ULLS	Unconditioned Local Loop Services
UNE	Unbundled Network Element
USF	Universal Service Fund
USTA	United States Telephone Association
VDT	Video Dialtone
xDSL	Digital Services Line (Symmetric or Asymmetric)

1 EXECUTIVE SUMMARY

The purpose of this proceeding is to review economic cost data to see if the current Subscriber Line Charge (SLC) of $5.00 should be increased. Undertaking this review is consistent with the Commission's commitment to set prices based on the economic cost of service. The National Association of State Utility Consumer Advocates (NASUCA) commends the Commission for undertaking the review. We believe that consumers in the United States should benefit from the same pricing standard established by the Commission for interconnection and unbundled network elements -- total element long-run incremental cost (TELRIC). In our filing we show that there is no economic basis for an increase in the Subscriber Line Charge.

The SLC is a flat charge that was originally designed to recover the interstate portion of local loop costs from an end user. It is now responsible for the recovery of the allowed common line, marketing and transport interconnection charge (CMT) revenue. The SLC is subject to a cap that, particularly for residential customers, is often below the level that would enable the Local Exchange Carrier (LEC) to recover the entire interstate CMT revenue. The Coalition for Affordable Local and Long Distance Service (CALLS) plan revised the system of common line charges by combining existing carrier and subscriber charges into one flat-rated SLC, added marketing and transport interconnection charge revenue recovery responsibility to residential and single-line business customers, and providing for limited deaveraging of those charges under specific conditions.

According to the Federal Communications Commission (FCC), by reforming the common line rate structure, the SLC promotes competition and preserves Universal Service. In addition, the FCC argues that controlled and capped increases in residential SLCs promote competition and ensure that rate levels remain affordable, while SLC deaveraging benefits consumers and preserve universal service. NASUCA, however, disagrees that this has been the result of the SLC under CALLS.

NASUCA demonstrates that average forward-looking SLC costs are below $5.00, that a comparison of the cost studies with comparable UNE rates shows that the cost estimates provided by the Incumbent Local Exchange Carriers (ILECs) are grossly overstated, and that the current $5 Subscriber Line Charge already covers costs. This demonstration is based on an analysis of the FCC Synthesis Model and state commission approved TELRIC rates. The FCC Synthesis Model calculates the forward-looking cost of universal service, and the unbundled network element rates are approved by the state commissions under FCC rules that mandate rates be based on forward-looking costs. Due to different input assumptions and modeling techniques, the TELRIC rates do not always match the Synthesis Model results.

The basic and fundamental result is that forward-looking costs are significantly below CMT revenues as consistently demonstrated by the Synthesis Model and the TELRIC rates. The implication of this fundamental result is, first, that current rates are high enough to recover the warranted forward-looking costs. Second, residential and single-

line business customers are currently paying implicit subsidies to the carriers and thus, supporting the carriers' other customers and stockholders. Third, increasing the residential and single-line business SLC cap will increase the implicit subsidies paid by these customers. Finally, in those rural high cost zones, where the SLC does not cover the forward-looking cost, it is reasonable to recover these costs from the Universal Service Fund.

NASUCA also demonstrates that the FCC must examine the allocation of cost between voice grade services and non-voice grade advanced services. The public switched network is being reconstructed to provide these advanced services. Many states have started to assign costs to these services. It is time for the FCC to revise its rules such that they are in accordance with a modern, multi-service platform. The loop can no longer be regarded as a twisted pair of copper dedicated to an end-user and built for the sole purpose of providing voice grade communications.

NASUCA is opposed to increasing the Subscriber Line Charge for the following reasons:

- The Cost Studies Filed by the ILECS in This Proceeding Do not Justify an Increase in the Subscriber Line Charge Cap (See Section 3);

- The FCC Must not Allow the CALLS-Proposed SLC Increases to Continue Based upon Studies for which other Parties have been Denied a Meaningful Opportunity to Review (See Section 3.1);

- The Cost Models Used for this Proceeding and Determining Increases in the Subscriber Line Charge Cap Should be Based on Forward-Looking Economic Costs, and not Embedded Cost Methodologies as Proposed by the ILECs (See Section 3.3);

- The Cost Models Supplied by the ILECs in this Proceeding do not Provide Full Disclosure of Model Inputs and Assumptions(See Section 3.4);

- The ILECs' Cost Estimates Overstate the Interstate Portion of Loop and Port Costs, and thus cannot be Used to Justify Increases in the Subscriber Line Charge (See Section 3.7);

- CMT revenue per line exceeds TELRIC SLC Cost and Synthesis Model Cost estimates for 41 of 44 Bell Operating Companies (See Table 1 in Section 3.7);

- Capital Cost and Depreciation Estimates are not Transparently Presented in the Cost Studies Submitted by the ILECs, and Shared and Common Costs are not Properly Allocated in the Cost Studies Submitted by the ILECs (See Sections 4.1 and 4.2);

- No Information is Provided Regarding Outside Plant Assumptions in the Cost Studies Submitted by the ILECs, (See Section 4.3);

- Forward-Looking Marketing Expenses are Not Incorporated into the ILEC Cost Studies, (See Section 4.6);

- The NASUCA Model Results Indicate that Forward-Looking SLC Costs are under $5 for about Three-Quarters of Residential and Single-Line Business Customers, and Therefore that the SLC Cap Should not be Increased (See Section 5.2);

- Increasing the SLC Caps will Increase the Implicit Subsidy Flows Paid by Residential and Single-Line Business Customers and Received by Carriers and their other Customers (See Section 5.2);

- The NASUCA Model Results Demonstrate that Residential and Single-Line Business Customers are Contributing to the Support of the Network, and Do not Receive a Subsidy (See Section 5.3);

- Major ILECs Have Recently Interpreted Joint Cost Pricing to Require a Non-Zero Price for Advanced Telecommunications Services, and the ILECs' Cost Studies do not Reflect their View that a Portion of Loop Costs should be Assigned to Advanced Services when the Loop is Used for ADSL Service (See Section 7.1);

- Today's Public Switched Telephone Network (PSTN) Has Been Constructed for the Provision of Non-Voice Advanced Services, and the Subscriber Line Charge Pricing Policy of the Commission Needs to Reflect This Fact (See Section 8); and

- Interexchange Carriers (IXCs) are Imposing Real Costs on the Local Networks that They do not Have to Pay for Under CALLS since the Traffic-Sensitive Costs of the Feeder are being Recovered through an End-User Charge, Rather than from the IXCs that Cause the Costs (See Section 8.5).

Conclusion and Recommendations

The economic and policy environment in the telecommunications sector is undergoing rapid and fundamental change. Therefore, traditional pricing policies such as increasing the Subscriber Line Charge as proposed under the CALLS order must come under increasing scrutiny for their impacts in this rapidly changing environment.

It is appropriate to use the forward–looking costs incorporated into state approved TELRIC rates and the FCC Synthesis Model to determine if an SLC Cap increase is warranted. The cost data show that the SLC should not go above $5. However, at the same time, we do not specifically seek deaveraging below $5 by asking in this proceeding for zones with costs below $5 to be immediately priced at cost. In this

proceeding, the FCC should only stop the increases in the SLC, and not change the CALLS order in any other way.

The cap should not exceed $5 since with this cap the ILECs are still collecting too much revenue – NASUCA estimates that customers with costs at or below $5 are paying $1,113 million more than cost, while customers with costs over $5 are paying $472 million less than cost. In any event, maintaining the SLC cap at $5 would not cause any company to have a rate of return below the FCC's authorized return on the order of 11.25%. As shown in Appendix A, every Company, other than New York Telephone, Cincinnati Bell (Kentucky), and Southwestern Bell (Texas), is currently earning a return on interstate service that exceeds 11.25%.

Furthermore, we recommend that the Commission undertake a proceeding in which it identifies the shared and joint costs that should be allocated to non-supported services. This filing demonstrates that the Commission's cost allocation procedures do not provide protection to users of supported services, in violation of Section 254(k) of the Act.

The Commission can no longer avoid the allocation issue of Section 254(k) because this docket deals with what costs should be collected in the bundled exchange rate. Our submission shows that the network is designed to meet the more demanding requirements of data and video, and that the CALLS plan to collect all of these costs from basic exchange service is illegal because it requires supported services to subsidize non-supported services.

Finally, Section 254(k) directs the Commission to prevent supported services from subsidizing non-supported ones. The Commission's current pricing rules and cost allocation procedures require monopoly-supported services to subsidize non-supported and competitive interexchange toll usage since traffic-sensitive costs are recovered through the Subscriber Line Charge. NASUCA strongly urges the Commission to abide by the clear intent of the Act, and end implicit subsidies.

2 Purpose of the Statement

This statement addresses the issue of scheduled increases in the Subscriber Line Charge (SLC) under the Coalition for Affordable Local and Long Distance Service (CALLS) proposal.[2] On September 17, 2001, the FCC issued a Public Notice for the Initiation of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps -- CC Docket Nos. 96-262, 94-1. The Notice required price cap Local Exchange Carriers (LECs) to file forward-looking cost information associated with the provision of retail voice grade access to the public switched telephone network. Comments are due on January 24, 2002, and Reply Comments are due on February 7, 2002. These comments are presented by the National Association of State Utility Consumer Advocates (NASUCA) on the complex issue of proposed increases in the Subscriber Line Charge.[3] The consumers represented by NASUCA members have an immediate and direct interest in this proceeding. The Federal Communications Commission (FCC) will decide here whether to increase the SLC and thus the cost of basic service for residential customers by $18.00 per year (or as high as $1.9 billion for all residential customers in the United States). Based on the record here, the FCC cannot increase the SLC.

The SLC is a flat charge that was originally designed to recover the interstate portion of local loop costs from an end user. It is now responsible for the recovery of the allowed common line, marketing and transport interconnection charge (CMT) revenues. The SLC is subject to a cap that, particularly for residential customers, is often below the level that would enable the LEC to recover the entire CMT revenue.[4] The CALLS plan revised the system of common line charges by combining existing carrier and subscriber charges into one flat-rated SLC, added marketing and transport interconnection charge revenue recovery responsibility to residential and single-line business customers, and providing for limited deaveraging of those charges under specific conditions.[5]

In the CALLS Order (15 FCC Rcd 12962 (2000)), the FCC raised the cap for the primary residential and single-line business Subscriber Line Charge (SLC) to $4.35 on July 1, 2000, and to $5.00 on July 1, 2001. Further scheduled increases were also set forth over the next two years, not to begin until the July 1, 2002 annual access tariff

[2] In the Matter of Access Charge Reform (CC Docket No. 96-262), Price Cap Performance Review for Local Exchange Carriers (CC Docket No. 94-1), Low-Volume Long-Distance Users (CC Docket No. 99-249), and Federal-State Joint Board On Universal Service (CC Docket No. 96-45). Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45. Adopted: May 31, 2000, Released: May 31, 2000.

[3] NASUCA is an association of 44 consumer advocates in 40 states and the District of Columbia. NASUCA's members are designated by the laws of their respective states to represent the interests of utility consumers before state and federal regulators and in the courts.

[4] Id., Paragraph 18.

[5] Id., Paragraph 252.

filings, and subject to the following Commission review in regard to the primary residential and single-line business SLC:

> "[W]e shall review any increases to residential and single-line business SLC caps above $5.00 to verify that any such increases are appropriate and reflect higher costs where they are to be applied. We will initiate and complete a cost review proceeding prior to any scheduled increases above this cap taking effect to determine the appropriate SLC cap. For this proceeding, the price cap [local exchange carriers (LECs)] have agreed to provide, and we will examine, forward-looking cost information associated with the provision of retail voice grade access to the public switched telephone network. We will address in that proceeding whether an increase in the SLC cap above $5.00 is warranted and, if not, whether a decrease in common line charges is warranted."[6]

According to the FCC, by reforming the common line rate structure, the SLC promotes competition and preserves Universal Service. The Commission also asserted that controlled and capped increases in residential SLCs promote competition and ensure that rate levels remain affordable, while SLC deaveraging benefits consumers and preserve universal service.[7] NASUCA, however, disagrees that this has been the result of the SLC under CALLS.

3 The Cost Studies Filed by the ILECS in This Proceeding Do not Justify an Increase in the Subscriber Line Charge Cap

The FCC cannot reasonably conclude that an increase to the SLC caps is justified. Based on an analysis of the cost studies provided by the Incumbent Local Exchange Carriers (ILECs) for this proceeding, increases to the SLC cap called for in the CALLS proposal are completely unwarranted. Moreover, the current SLC cap may already be overstated.

The cost studies filed in this proceeding fail to justify an increase to the SLC cap because:

1. The submissions violate the forward-looking cost study standards established by the FCC in recent decisions:

    a. The cost submissions fail to include the actual models used to estimate costs;

[6] Public Notice for the Initiation of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps -- CC Docket Nos. 96-262, 94-1.

[7] Id., Appendix 3. Memorandum In Support of the Coalition For Affordable Local And Long Distance Service Plan.

b. The cost submissions fail to provide supporting information such as a detailed description of all algorithms, computations, and software associated with the study; and
c. The cost submissions fail to provide the essential input values used to run the models.

2. The cost studies contain a number of fatal methodological flaws:

   a. The studies are improperly designed to recover embedded costs, rather than forward-looking economic costs;
   b. The utilization rates assumed in the study are not forward looking; and
   c. The depreciation lives used in the studies are biased towards investors and do not reflect the useful economic lives of the underlying network elements.

3. The ILECs have failed to meet the burden of proof that an SLC price increase is cost justified.

   a. The ILECs provided insufficient evidence that would permit any party or the FCC to judge the reasonableness of their cost estimates -- any finding to the contrary would be arbitrary and capricious;
   b. Approval of fatally flawed cost studies would represent an unexplained reversal of past FCC policy; and
   c. The FCC cannot abdicate its role as a rational decision-maker by failing to exercise proper judgment concerning the reasonableness of the LEC cost estimates.

4. A comparison with comparable UNE rates shows that the LEC cost estimates are grossly overstated.

The ILECs have filed cost studies that they contend support their position that an increase in the SLC is justified on the basis of the cost of service. The record clearly does not support such a conclusion. The ILECs have failed to provide the necessary support information that would permit the Commission and interested parties to evaluate the reasonableness of the studies. The Commission cannot approve the incomplete filings without reversing its view on what information needs to accompany a cost study. If the FCC were to approve such fatally flawed cost studies it would represent an unexplained reversal of past FCC policy concerning appropriate forward-looking costing principles, a clear violation of the directives of the Supreme Court.[8]

[8] "While the agency is entitled to change its views on the acceptability of [a prior policy], it is obligated to explain its reasons for doing so." Motor Vehicle Manufacturers Association vs. State Farm Mutual. Automobile Insurance Company, 463 U.S. 29, 56, 103 S.Ct. 2856, 2873, 77 L.Ed.2d. 443 (1983) -- United States Court of Appeals (Fifth Circuit) 737 F.2d 1095, 1134 (D.C. Cir. 1984) {CALLS Appeal} Docket No. 00-60434, at Page 7.

Furthermore, verifying an increase to the SLC caps based upon cost studies that relies upon embedded costs, undisclosed algorithms, and unidentified state specific inputs is categorically inexcusable. The FCC cannot abdicate its role as a rational decision-maker by failing to exercise its proper judgment concerning the reasonableness of the LEC cost models and the resulting cost estimates. To do so would be contrary to the findings of the United States Court of Appeals.[9]

3.1 The FCC Must not Allow the CALLS-Proposed SLC Increases to Continue Based upon Studies for which other Parties have been Denied a Meaningful Opportunity to Review

Access charge reform has been a thorny issue for almost two decades.[10] In an attempt to address industry concerns about access charges, the FCC approved the CALLS proposal. According to the FCC, this proposal was supposed to "bring lower rates and less confusion to consumers; and create a more rational interstate rate structure. This, in turn, will support more efficient competition, more certainty for the industry, and permit more rational investment decisions."[11] While the FCC and the industry insiders that authored the proposal saw CALLS as a panacea, it has been less warmly received by others.

In response to early criticism of the original CALLS plan by consumer groups and state commissions, CALLS members filed a modified version of the proposal on February 25, 2000. The CALLS Order adopted by the FCC on May 31, 2000 reflects the modified CALLS proposal in that, among other things, it requires a review of "increases to residential and single-line business SLC caps above $5.00 to verify that any such increases are appropriate and reflect higher costs where they are to be applied." The Commission stated that the cost benchmark would be forward-looking economic costs.[12]

The cost review taking place in this proceeding is particularly important because the FCC declined to require cost studies prior to adopting the CALLS proposal. Rather, the FCC left to this proceeding to address "whether an increase in the SLC cap above $5.00 is warranted and, if not, whether a decrease in common line charges is warranted."[13]

---

[9] An agency abdicates its role as a rational decision-maker if it does not exercise its own judgment, and instead cedes near-total deference to private parties' estimates--even if the parties agree unanimously as to the estimated amount. Cf. Laclede, 997 F.2d at 946 ("Even when the customer support is unanimous, however, FERC retains the responsibility of making an 'independent judgment' as to whether the settlement amount constitutes a reasonable remedy."). CALLS Appeal at 13.

[10] CALLS Order at ¶2

[11] CALLS Order at ¶1

[12] CALLS Order at ¶83

[13] CALLS Order at ¶83 (footnote omitted)

Unfortunately, the CALLS members participating in this proceeding do not appear to be interested in allowing parties the opportunity to examine the reasonableness of the current SLC cap -- or its scheduled increase. The ability of parties to review the ILECs' cost estimates is severely impaired because of the ILECs' collective failure to provide such basic information as the computer models, formulas, and inputs used to obtain the cost estimates.

The FCC must not allow the CALLS-proposed SLC increases to continue based upon studies for which other parties have been denied a meaningful opportunity to review. Allowing CALLS members to perpetuate the charade that the SLC is less than the economic cost of service would be a disservice to all consumers and would reinforce the suspicions that CALLS is nothing more than an illicit backroom deal that unjustly benefits CALLS members at the expense of the American public.[14] In the remaining sections of Section 3 of our submission we describe how the ILEC's cost filings do not comport with the Commission's costing standards and therefore cannot be found to be supportive of the proposed increase in the SLC.

---

[14] In a separate statement attached to the CALLS Order FCC Commissioner Harold Furchtgott-Roth describes the process by which the original CALLS proposal was modified as "fundamentally inconsistent with principles of neutrality and transparency that must govern agency decisionmaking." Commissioner Furchtgott-Roth points to the fact that the FCC "held a series of meetings with a select group of some – but by no means all – of the parties with interests in this proceeding" to negotiate a compromise, and that "the substance of what was discussed at these meetings was not publicly disclosed." "More dismaying" is the fact that, in return for certain modifications to the CALLS proposal, the FCC furtively agreed to resolve two issues that are unrelated to access charge reform in favor of CALLS members. "To brief the Commissioners and their staff regarding the outcome of the CALLS negotiations, the Bureau distributed briefing sheets outlining the incumbent carriers' concerns and making plain that the depreciation and special access matters had become a key part of the CALLS package. Nothing in this order, however, tells the public of this connection between this order and these other dockets." According to Furchtgott-Roth "it was entirely improper for the Commission to have permitted the unrelated matters of depreciation and special access become part of the negotiations."

FCC Commissioner Gloria Tristani pointed to the "numerous pro-consumer commitments" and their potential positive impact on consumers as a significant reason why she voted to approve the CALLS proposal. However, in a speech less than two weeks after CALLS was released she expressed concern that the long distance carriers were not honoring their commitments to pass through access charge savings to consumers because AT&T had already announced that it was raising its per-minute long distance rates. According to Commissioner Tristani, "at a minimum, this proposed increase appeared to violate the spirit of the reform package, which was touted as reducing rates for consumers." As a result she suggested "it might be advisable to put CALLS on hold until we get more satisfactory answers." See: http://www.fcc.gov/Speeches/Tristani/2000/spgt007.html

Unfortunately, consumers have not received many satisfactory answers since the CALLS Order was released. A recent Wall Street Journal article notes that the nation's three largest long distance carriers have just recently introduced their latest round of rate increases. See http://interactive.wsj.com/archive/retrieve.cgi?id=SB1009932069671487280.djm

3.2 The Cost Models Submitted by the ILECs for this Proceeding are not Forward-Looking Cost Models Based on Economic Costs and Verifiable Assumptions

While there are countless ways to construct a cost model, there are two basic principles that must be adhered to in order to properly model an efficient forward-looking telecommunications network. First, the study should be based upon economic rather than embedded costs. As stated in the Commission's CALLS order: "For this proceeding, the price cap [local exchange carriers (LECs)] have agreed to provide, and we will examine, forward-looking cost information associated with the provision of retail voice grade access to the public switched telephone network."[15]

Second, there must be full disclosure of all assumptions, algorithms, and input data.[16] The study assumptions must be reasonable and well documented so that they may be verified. If these basic conditions are not met the model cannot be relied upon to provide reasonable results. Even the most precise model can provide erroneous cost estimates if the underlying inputs are inherently flawed or cannot be verified.[17]

Unfortunately, the cost submissions provided by CALLS members in this proceeding fail to satisfy these basic conditions.[18] Rather than providing accurate forward-looking cost estimates and detailed explanations of how these figures were calculated, these cost submissions are, at best, nothing more than a laundry list of unsupported figures. As a whole, the studies reviewed by NASUCA represent a collection of questionable methodologies and entirely unsupported assumptions. Each submission is more appropriately described as a "Black Box" that raises many more questions than it answers.[19] The FCC cannot justify the current SLC cap; much less authorize any

---

[15] See CALLS Order, Paragraph 83.

[16] When reviewing forward-looking economic cost studies the FCC has explicitly stated that the model must be well documented, open to inspection, and that all supporting information must be fully disclosed. See, for example, DA 98-217 at Page 3: "Please provide supporting information that includes a detailed description of the proposed cost study and all underlying data, formula, computations, and software associated with the study. The documentation should include a complete listing of algorithms and formulas used in the study and in any pre-processing modules...if the proposal contains changes to the algorithms or inputs of a model under consideration by the Commission, however, such changes must be clearly documented." These principles are also supported by a number of state regulatory decisions. See, for example, Washington Utilities and Transportation Commission Docket No.UT-960369-Eighth Supplemental Order at ¶¶24-25, Connecticut Department of Public Utility Control Docket No. 95-06-17 released December 20, 1995 at Page 77, and Public Utilities Commission of Nevada Docket No. 96-9035 at ¶¶53-54.

[17] "GIGO" or Garbage In Garbage Out is a computer programming term that best describes this situation. A program or model's results are only as good as the information used to run the model.

[18] Due to the short time schedule set for this proceeding NASUCA limited its cost study analysis to the submissions of the RBOCs - BellSouth, Qwest, SBC, and Verizon. These firms were chosen because as a group they serve the vast majority of access lines in the United States.

increases to the cap, based upon the evidence at hand. To do so would be irresponsible and an abrogation of the FCC's responsibility to ensure that rates be just and reasonable.

3.3 The Cost Models Used for this Proceeding and Determining Increases in the Subscriber Line Charge Cap Should be Based on Forward-Looking Economic Costs, and not Embedded Cost Methodologies as Proposed by the ILECs

Although the Regional Bell Operating Companies ("RBOCs") claim that their studies are forward-looking, nothing could be further from the truth. Rather these studies are embedded cost studies re-evaluated using current prices.

There are numerous examples in these submissions indicating that the models are designed to recover embedded costs. For example, Southwestern Bell Company (SBC) states "plant investments are computed for each component reflecting the mix of equipment used today."[20] SBC does not even attempt to explain why it believes its embedded plant represents the technological and design requirements of an efficient forward-looking network.[21] It is clear that SBC's studies are not forward-looking because they are based upon existing plant rather than the most efficient technology available.[22]

The FCC has been very clear that the existing plant mix should not be used in a forward-looking cost study:

[19] Sprint relied upon the FCC's cost model. However, Sprint performed a sensitivity analysis, but did not disclose information concerning the derivation of the new inputs. Thus, NASUCA has been unable to audit the results to establish the reasonableness of the proposed changes.

[20] SBC Study, Attachment 1 at Pages 7 and 14. NASUCA cannot be certain that the remaining cost studies it has reviewed are designed to recover embedded costs because so little useful information has been disclosed. However, the limited documentation provided by BellSouth, Qwest, and Verizon suggests that this may be the case.

[21] BellSouth's Cost Calculator applies the embedded relationship between cable and structure to determine the cost of poles, conduit, and trenching. No attempt is made to determine the forward-looking cost of these structures. See BellSouth cost submission at Page 4. Verizon relies on its embedded network design. It lays out distribution and feeder plant right on top of existing plant. No effort is made to design the lowest cost network configuration, given the existing wire center locations. Verizon Cost submission, Attachment D, Page 5.QWEST asserts that it builds cable based on user-supplied inputs. However, it never provides evidence to confirm that these inputs are forward-looking. QWEST cost submission, Page 3.

[22] Providing embedded cost information is in direct conflict with the FCC's order initiating this proceeding. In DA-01-2163 the FCC explicitly stated, "the price cap [local exchange carriers (LECs)] have agreed to provide, and we will examine, ***forward-looking cost information*** associated with the provision of retail voice grade access to the public switched telephone network." (emphasis added) In failing to provide forward-looking cost information the RBOCs have assured that the FCC cannot determine that an increase to the SLC cap is justified.

> "[e]xisting incumbent LEC plant is not likely to reflect forward-looking technology or design choices. Instead, incumbent LECs' existing plant will tend to reflect choices made at a time when different technology options existed or when the relative cost of equipment to labor may have been different than it is today."[23]

What this example illustrates is that SBC was correct to assert that its "study is not designed to establish the correct loop cost, rather it is to document the cost of providing such a service."[24] Just like the other ILECs, SBC has incorrectly presented a reproduction cost study, something that has been explicitly rejected by the FCC, rather than a replacement cost study as required by FCC costing principles. That is, the ILECs have proposed a methodology that the FCC finds to be economically meaningless. Furthermore, the Commission recently argued before the Supreme Court that the reproduction methodology was "wooden and long-discredited". The Commission added that the cost of replicating an incumbent's existing facilities would produce rates "'that reflect inefficient or obsolete network design and technology.'"[25]

The FCC should not allow CALLS members to disregard its costing standards when attempting to support an increase in the SLC cap. To do so would unjustly enrich these firms at the expense of the American public.

3.4 The Cost Models Supplied by the ILECs in this Proceeding do not Provide Full Disclosure of Model Inputs and Assumptions

Reviewing a cost study designed to estimate the cost of providing an efficient telecommunications network is an arduous task even under the best of circumstances. Due to the scheduling and procedural constraints of this proceeding, the difficulty of this task is even greater.[26] However, one does not have to delve too far into the ILECs cost submissions to discover fatal flaws. None of the ILECs provided its cost model or the inputs used to run the models. This alone is reason for the FCC to completely reject these submissions and deny attempts to further inflate the SLC cap. SBC claims that it

[23] Inputs Order at ¶351 citing Platform Order, 12 FCC Rcd at 21350, Paragraph 66.

[24] SBC Study, Executive Summary, at Page 4.

[25] See: FCC Brief in Verizon Communications Inc. et al., Petitioners v. FCC, in the Supreme Court of the United States, 00-511, 00-555, 00-587, 00-590 and 00-602, April 2001, at page 28, quoting Local Competition Order at ¶684.

[26] One must also consider the magnitude of the auditing task presented by this proceeding. For example, the FCC has taken over seven months to review the cost studies submitted by Verizon in Virginia. That proceeding encompasses a single company, a single study area, and a single set of inputs. Conversely, in this proceeding parties have less than three months to complete a similar task involving more than 10 companies and 181 study areas. Verizon alone has indicated the use of three distinct cost models. Further exacerbating difficulties is the fact that the ILEC cost submissions rely on state specific inputs, each of which, rightly, must be verified.

did not provide the actual inputs used in the model because they are proprietary and competitively sensitive.[27] This excuse has no merit. Regulated firms regularly provide commercially sensitive proprietary information to regulators and other neutral parties under standard proprietary agreements.[28] There is no reason why SBC or any other firm could not have provided its cost model and inputs under such an agreement.

The ILECs' conscious decisions to withhold cost models and inputs makes it impossible for parties to validate the accuracy of these models and because of this denial of due process it would be improper for the FCC to conclude that these cost estimates accurately reflect the operations of an efficient firm.[29] The FCC cannot ignore the importance of using reasonable model inputs in this proceeding. The FCC must not allow these companies to avoid scrutiny by deliberately failing to supply interested parties with any useful information. To do so would run counter to previous decisions of the FCC and various state commissions and by itself destroy the credibility of this proceeding.

Even without revealing the actual inputs used in their studies, the RBOCs have provided a second irrefutable reason for the FCC to reject these submissions. This is because the RBOCs cost models rely upon state specific inputs.[30] The FCC has explicitly rejected the use of state specific inputs in the Universal Service Proceeding because they are administratively unmanageable and inappropriate.

> "We find that using company-specific data for federal universal service support purposes would be administratively unmanageable and inappropriate. Moreover, we find that averages, rather than company-specific data, are better predictors of the forward-looking costs that should be supported by the federal high-cost mechanism. Furthermore, we note that we are not attempting to identify any particular company's cost of providing the supported services. We are estimating the costs that an efficient provider would incur in providing the supported services."[31]

[27] SBC Study, at Page 4.

[28] See for example, DA 01-2828, the order governing the use of proprietary wire center line counts in this proceeding. In this proceeding, NASUCA received proprietary line count information pursuant to the Commission's Interim Protective Order.

[29] For example, while SBC allegedly "utilized a computer model to calculate the forward-looking cost of the loops and ports that comprise residential voice grade telephone service" it did not provide a breakdown of its cost estimates by loop and port. SBC could have easily provided this information allowing parties to compare its alleged port costs with the port rates established by the FCC in In the Matter of Federal-State Joint Board on Universal Service CC Docket No. 96-45 and Forward-Looking Mechanism for High Cost Support for Non-Rural LECs CC Docket No. 97-160. Tenth Report and Order, ("Inputs Order") released November 2, 1999.

[30] See, for example, SBC study at Attachment 1, Page 7, Verizon study at Attachment D, Page 2, and BellSouth at 4. NASUCA was unable to identify the use of such inputs by Qwest because so little information was provided in its cost submission.

[31] Inputs Order at 90. (footnotes omitted).

The FCC rejected company specific inputs because of the possibility that they could not be verified and that the inputs may be overstated.[32] To overcome these problems the inputs chosen for the universal service studies were generally derived from publicly available data sets. The conclusions drawn by the FCC in the Inputs Order are equally applicable here. The FCC must continue to rely upon cost model inputs that are both reasonable and verifiable.

Elsewhere in this document we use state specific TELRIC rates to judge the reasonableness of the ILECs' cost studies (See Table 1 in Section 3.7). Use of the state specific TELRIC prices is distinguishable from the FCC's decision in the USF docket because the state commissions have spent years evaluating the reasonableness of the inputs to the TELRIC studies. The FCC rejected ILEC sponsored, state specific inputs in the USF proceeding because it would be administratively unmanageable for the FCC to conduct a thorough review of the company-specific data.

3.5 It is Appropriate to Compare the Cost Information Provided by the ILECs with Reasonable Forward-Looking Cost Estimates

The 1996 Telecommunications Act requires that states set cost-based prices for unbundled network elements. To help the states accomplish this goal, the FCC concluded that the state commissions should set prices for UNEs following a forward-looking economic cost methodology. In the Local Competition Order the FCC described its forward-looking cost-based pricing standard in detail. The FCC concluded that the price of a network element should include the forward-looking costs that can be attributed directly to the provision of that element, including a reasonable return on investment, plus a reasonable share of the forward-looking joint and common costs.[33]

The connection between the UNE loop and port rates established by state commissions and the cost information requested in this proceeding is easy to make because there is a direct, one-to-one relationship between the facilities underlying the aforementioned UNEs and the facilities in question in this proceeding.[34] However, the RBOCs have attempted to drive a wedge between the cost of providing loops and ports as UNEs and the cost information they have provided for this docket.

---

[32] In this Proceeding, Verizon claims at Page 9 of Attachment D of its cost submission that "...investments are then made state specific, where appropriate, by applying a factor to the element to gross them up..." Does this mean that state specific values are only appropriate if they are greater than average costs? Based on the scant information provided in Verizon's cost submission this question cannot be answered.

[33] Local Competition Order at 673.

[34] "The costs for residential voice grade service are derived primarily from the loop and port cost components" of Verizon's models. See Verizon Study, Attachment D, Page 1.