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January 31, 2002

BY HAND

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

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JAN 31 2002

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RE: *WorldCom, Cox, and AT&T v. Verizon*
CC Docket Nos. 00-218, 00-249, and 00-251

Dear Ms. Salas:

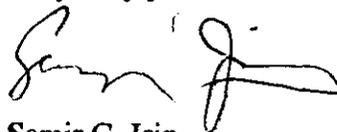
Enclosed for filing please find 4 public versions of Verizon Virginia Inc.'s ("Verizon VA") Post Hearing Reply Brief in the above-referenced arbitration proceedings.

Verizon VA is also serving 8 copies of the non-public version of the brief, as well as 2 copies of the public version, on Commission staff.

Verizon VA is providing AT&T and WorldCom the proprietary version of the Post Hearing Reply Brief, which contains information proprietary to Verizon VA, pursuant to the protective order issued in this case on June 6, 2001.

Please call Scott Randolph (202-515-2530) or me if you have any questions.

Very truly yours,



Samir C. Jain
Attorney for Verizon Virginia Inc.

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JAN 31 2002

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

In the Matter of)
 Petition of WorldCom, Inc. Pursuant)
 to Section 252(e)(5) of the)
 Communications Act for Expedited)
 Preemption of the Jurisdiction of the)
 Virginia State Corporation Commission)
 Regarding Interconnection Disputes)
 with Verizon Virginia Inc., and for)
 Expedited Arbitration)
)
 In the Matter of)
 Petition of Cox Virginia Telecom, Inc., etc.)
)
)
 In the Matter of)
 Petition of AT&T Communications of)
 Virginia Inc., etc.)
)
)

CC Docket No. 00-218

CC Docket No. 00-249

CC Docket No. 00-251

VERIZON VIRGINIA INC.

POST HEARING REPLY BRIEF

(Public Version)

JANUARY 31, 2002

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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION**

**POST-HEARING REPLY BRIEF
OF VERIZON VIRGINIA INC.**

I. INTRODUCTION

Throughout these proceedings, Verizon VA has urged the Commission to adopt the most economically appropriate interpretation of TELRIC and, within the constraints of that regulatory regime, estimate as accurately as possible the forward-looking costs of providing UNEs to CLECs. Verizon VA's studies are designed to do just that. In the guise of pleading with the Commission to reject "compromise results," Petitioners, on the other hand, advocate an extreme interpretation of TELRIC and a cost model and inputs that, while certainly producing low rates, have little to do with the forward-looking costs that Verizon VA or any other carrier could ever incur in providing UNEs. Thus, Petitioners are correct when they state that "[t]he parties have presented the Commission with a stark choice." (AT&T/WCom Br. at 1.) But they are right about little else.

Accepting Petitioners' approach would result in rates less than half those the Commission has found to be acceptable and TELRIC-compliant within the past three years. (VZ-VA Br. at 5-6.) Petitioners do not, of course, suggest that such a decrease is due to some precipitous drop in costs. In order to obtain UNEs at the lowest possible rates, they simply urge the Commission to reduce rates substantially by accepting AT&T/WorldCom's model or finding some other pretense to lower rates below any realistic measure of forward-looking costs.

The Commission should reject Petitioners' invitation to choose an ends-based approach to setting rates rather than undertake an analysis of the incumbent's TELRIC costs. To have any legal validity, the TELRIC standard must have some defining principles and not simply be a manipulable policy vehicle to provide CLECs with low UNE rates. Such an approach would not only be unprincipled, but would also disregard an at least equally critical policy concern: setting UNE rates so far below any plausible estimate of the incumbent's forward-looking costs would send false economic signals to the market, discouraging true facilities-based entry and encouraging uneconomic entry via the incumbent's facilities. If this Commission does not recognize the danger of setting UNE rates too low, but instead falls into line behind some states that have been more concerned with the rates charged to CLECs than estimating incumbents' UNE costs, then it is unlikely that any state commission will either.

In their attempt to support their proposed ends-based approach, Petitioners substitute rhetoric and distortion for substantive analysis. They resort to misrepresenting the record and ad hominem accusations that Verizon VA has presented false evidence to the Commission, without pausing to point to even a shred of evidence to support that inflammatory charge.

Even more significantly, Petitioners do not even feign interest in estimating the forward-looking costs in a real-world competitive market for local telephone service in Virginia. In fact, AT&T/WorldCom now concede that their assumption of entry by a hypothetical competitor of their own imagining is entirely divorced from reality, acknowledging that a real-world carrier could and would never engage in such entry or make the deployment and other decisions Petitioners propose. (AT&T/WCom Br. at 24.) This is a startling, and ultimately fatal, concession. As Drs. Shelanski and Tardiff have explained — and AT&T/WorldCom have not even attempted to refute — costs and prices in a competitive market are the product of rational

business decisions by real-world competitors. (VZ-VA Ex. 117 at 9-10.) Because, by Petitioners' own admission, the assumptions in their cost studies would never guide a competitor's decisions in the real world, the economic significance of the resulting illusory "costs" is non-existent.

For the same reason, the network design that Petitioners assume is without economic relevance. In designing their model network, AT&T/WorldCom evince no concern over whether that network is capable of providing the requisite services to all Virginia customers, let alone whether it can do so in a manner that meets applicable service quality standards. They are not even concerned about whether the technology they propose is commercially available. But, as Verizon VA explained in its initial brief (VZ-VA Br. at 29-33), a model that produces the costs of a network incapable of serving customers in the real world is useless for developing UNE rates. And it is certainly inferior to a study, such as Verizon VA's, that unquestionably models a network with the requisite capabilities.

Contrary to what Petitioners claim, setting UNE rates cannot be an abstract exercise in computer modeling divorced from the real world. Instead, an appropriate cost model must account for the demand and technology uncertainties that carriers actually confront, the competitive, technological, and regulatory risks that necessarily affect costs, and the rational, efficient investment and entry decisions that real-world firms make. Petitioners ignore these crucial considerations. Verizon VA, by contrast, has proffered studies that, within the constraints of TELRIC, take account of these factors and reflect efficient and cost-minimizing decisions drawn from Verizon VA's experience in operating a network that serves all Virginia customers. Verizon VA's model therefore produces the best estimate of its TELRIC costs of providing UNEs, and the Commission should accordingly adopt the resulting UNE rates.